UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended March 31, 2009

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission File Number: 2-17039

NATIONAL WESTERN LIFE INSURANCE COMPANY

(Exact name of Registrant as specified in its charter)

COLORADO (State of Incorporation)	84-0467208 (I.R.S. Employer Identification Number)
850 EAST ANDERSON LANE AUSTIN, TEXAS 78752-1602 (Address of Principal Executive Offices)	(512) 836-1010 (Telephone Number)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated file" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of May 7, 2009, the number of shares of Registrant's common stock outstanding was: Class A – 3,425,966 and Class B - 200,000.

NATIONAL WESTERN LIFE INSURANCE COMPANY

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

ASSETS	(Unaudited) March 31, 2009	December 31, 2008
Investments:		
Securities held to maturity, at amortized cost		
(fair value: $3,860,173 and $3,727,353)	$ 3,920,491	3,831,417
Securities available for sale, at fair value		
(cost: $1,899,594 and $1,904,053)	1,762,988	1,745,266
Mortgage loans, net of allowance for possible losses		
($4,593 and $4,587)	91,430	90,733
Policy loans	77,299	79,277
Derivatives, index options	9,116	11,920
Other long-term investments	13,648	14,168
Total Investments	5,874,972	5,772,781
Cash and short-term investments	28,089	67,796
Deferred policy acquisition costs	696,564	701,984
Deferred sales inducements	124,579	120,955
Accrued investment income	66,572	64,872
Federal income tax receivable	-	1,820
Other assets	62,208	56,272
	$ 6,852,984	6,786,480

See accompanying notes to condensed consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

LIABILITIES AND STOCKHOLDERS' EQUITY	(Unaudited) March 31, 2009	December 31, 2008
LIABILITIES:		
Future policy benefits:		
Traditional life and annuity contracts	$ 137,362	137,530
Universal life and annuity contracts	5,470,463	5,424,968
Other policyholder liabilities	134,679	131,963
Federal income tax liability:		
Current	3,462	-
Deferred	33,988	26,506
Other liabilities	61,068	79,300
Total liabilities	5,841,022	5,800,267
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY:		
Common stock:		
Class A - $1 par value; 7,500,000 shares authorized; 3,425,966 and 3,425,454 issued and outstanding in 2009 and 2008	3,426	3,426
Class B - $1 par value; 200,000 shares authorized, issued, and outstanding in 2009 and 2008	200	200
Additional paid-in capital	36,680	36,680
Accumulated other comprehensive loss	(54,637)	(65,358)
Retained earnings	1,026,293	1,011,265
Total stockholders' equity	1,011,962	986,213
	$ 6,852,984	6,786,480

Note: The condensed consolidated balance sheet at December 31, 2008, has been derived from the audited consolidated financial statements as of that date.

See accompanying notes to condensed consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the Three Months Ended March 31, 2009 and 2008
(Unaudited)
(In thousands, except per share amounts)

	2009	2008
Premiums and other revenue:		
Life and annuity premiums	$ 4,131	3,894
Universal life and annuity contract revenues	38,571	32,218
Net investment income	70,606	59,430
Other income	3,594	3,139
Realized losses on investments	(5,345)	(44)
Total premiums and other revenue	111,557	98,637
Benefits and expenses:		
Life and other policy benefits	13,028	10,455
Amortization of deferred policy acquisition costs	27,948	26,249
Universal life and annuity contract interest	35,266	26,617
Other operating expenses	12,713	13,430
Total benefits and expenses	88,955	76,751
Earnings before Federal income taxes	22,602	21,886
Provision for Federal income taxes:		
Current	5,864	3,890
Deferred	1,710	3,550
Total Federal income taxes	7,574	7,440
Net earnings	$ 15,028	14,446
Basic Earnings Per Share:		
Class A	$ 4.26	4.10
Class B	$ 2.13	2.05
Diluted Earnings Per Share:		
Class A	$ 4.26	4.07
Class B	$ 2.13	2.05

See accompanying notes to condensed consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three Months Ended March 31, 2009 and 2008
(Unaudited)
(In thousands)

	2009	2008
Net earnings	$ 15,028	14,446
Other comprehensive income, net of effects of deferred costs and taxes:		
Unrealized gains on securities:		
Net unrealized holding gains arising during period	7,645	408
Reclassification adjustment for net losses (gains) included in net earnings	2,701	(36)
Amortization of net unrealized losses (gains) related to transferred securities	(32)	16
Net unrealized gains on securities	10,314	388
Foreign currency translation adjustments	(5)	(181)
Benefit plans:		
Amortization of net prior service cost and net gain	412	309
Other comprehensive gain	10,721	516
Comprehensive income	$ 25,749	14,962

See accompanying notes to condensed consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Three Months Ended March 31, 2009 and 2008
(Unaudited)
(In thousands)

	2009	2008
Common stock:		
Balance at beginning of year	$ 3,626	3,622
Shares exercised under stock option plan	-	3
Balance at end of period	3,626	3,625
Additional paid-in capital:		
Balance at beginning of year	36,680	36,236
Shares exercised under the stock option plan	-	327
Balance at end of period	36,680	36,563
Accumulated other comprehensive (loss):		
Unrealized (losses) gains on securities:		
Balance at beginning of year	(53,770)	1,184
Change in unrealized gains during period	10,314	388
Balance at end of period	(43,456)	1,572
Foreign currency translation adjustments:		
Balance at beginning of year	2,966	3,078
Change in translation adjustments during period	(5)	(181)
Balance at end of period	2,961	2,897
Benefit plan liability adjustment:		
Balance at beginning of year	(14,554)	(11,327)
Amortization of net prior service cost and net gain	412	309
Balance at end of period	(14,142)	(11,018)
Accumulated other comprehensive loss at end of period	(54,637)	(6,549)
Retained earnings:		
Balance at beginning of year	1,011,265	978,892
Net earnings	15,028	14,446
Balance at end of period	1,026,293	993,338
Total stockholders' equity	$ 1,011,962	1,026,977

See accompanying notes to condensed consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2009 and 2008
(Unaudited)
(In thousands)

	2009	2008
Cash flows from operating activities:		
Net earnings	$ 15,028	14,446
Adjustments to reconcile net earnings to net cash		
from operating activities:		
Universal life and annuity contract interest	40,230	26,617
Surrender charges and other policy revenues	(15,598)	(9,568)
Realized losses on investments	5,345	44
Accrual and amortization of investment income	(1,427)	(1,300)
Depreciation and amortization	(2,062)	272
Decrease in value of derivatives	1,365	20,480
Increase in deferred policy acquisition and sales inducement costs	(4,516)	(1,535)
Decrease (increase) in accrued investment income	(1,700)	812
Increase in other assets	(6,930)	(2,773)
Increase (decrease) in liabilities for future policy benefits	(170)	52
Increase in other policyholder liabilities	2,715	10,285
Increase in Federal income tax liability	7,211	8,100
(Decrease) increase in other liabilities	589	(814)
Other	29	1,810
Net cash provided by operating activities	40,109	66,928
Cash flows from investing activities:		
Proceeds from sales of:		
Securities available for sale	11,595	124
Other investments	1,820	197
Proceeds from maturities and redemptions of:		
Securities held to maturity	310,381	248,009
Securities available for sale	38,830	78,696
Derivatives	11,605	8,964
Purchases of:		
Securities held to maturity	(416,297)	(234,856)
Securities available for sale	(49,420)	(67,636)
Other investments	(10,120)	(11,810)
Principal payments on mortgage loans	1,493	1,308
Cost of mortgage loans acquired	(2,513)	(777)
Decrease (increase) in policy loans	1,978	(1,546)
Other	-	(1,893)
Net cash provided by (used in) investing activities	(100,648)	18,780

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
For the Three Months Ended March 31, 2009 and 2008
(Unaudited)
(In thousands)

	2009	2008
Cash flows from financing activities:		
Deposits to account balances for universal life and annuity contracts	$ 166,815	115,410
Return of account balances on universal life and annuity contracts	(145,978)	(152,553)
Issuance of common stock under stock option plan	-	330
Net cash provided by (used in) financing activities	20,837	(36,813)
Effect of foreign exchange	(5)	(104)
Net increase (decrease) in cash and short-term investments	(39,707)	48,791
Cash and short-term investments at beginning of period	67,796	45,206
Cash and short-term investments at end of period	$ 28,089	93,997

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

	2009	2008
Cash paid during the year for:		
Interest	$ 10	10
Income taxes	582	-
Noncash operating activities:		
Deferral of sales inducements	4,965	1,678

See accompanying notes to condensed consolidated financial statements.

(1) CONSOLIDATION AND BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position of National Western Life Insurance Company and its subsidiaries ("Company") as of March 31, 2009, and the results of its operations and its cash flows for the three months ended March 31, 2009 and 2008. The results of operations for the three months ended March 31, 2009 and 2008 are not necessarily indicative of the results to be expected for the full year. For further information, refer to the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 accessible free of charge through the Company's internet site at www.nationalwesternlife.com or the Securities and Exchange Commission internet site at www.sec.gov.

The accompanying condensed consolidated financial statements include the accounts of National Western Life Insurance Company and its wholly-owned subsidiaries: The Westcap Corporation, NWL Investments, Inc., NWL Services, Inc., NWL Financial, Inc., and Regent Care San Marcos Holdings, LLC. All significant intercorporate transactions and accounts have been eliminated in consolidation.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates in the accompanying condensed consolidated financial statements include (1) liabilities for future policy benefits, (2) valuation of derivative instruments, (3) recoverability and amortization of deferred policy acquisition costs, (4) valuation allowances for deferred tax assets, (5) other-than-temporary impairment losses on debt securities, and (6) valuation allowances for mortgage loans and real estate.

Certain amounts in the prior year condensed consolidated financial statements have been reclassified to conform to the current year presentation.

(2) NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires additional disclosures about fair value measurements. The Company adopted this guidance effective January 1, 2008 and the adoption did not have an impact on the Company's consolidated financial statements. See related disclosures in Note 10 to Consolidated Financial Statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This Statement permits entities to choose upon adoption or at specified election dates, to measure at fair value many financial instruments and certain other items at fair value. The Company adopted SFAS 159 effective January 1, 2008, with no impact to the Company's consolidated financial statements as no eligible financial assets or liabilities were elected to be measured at fair value upon initial adoption. Management will continue to evaluate eligible financial assets and liabilities on their election dates, and will disclose any future elections in accordance with provisions outlined in the Statement.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS 160 establishes accounting and reporting standards for entities that have equity investments that are not attributable directly to the parent, called noncontrolling interests or minority interests. Specifically, SFAS 160 states where and how to report noncontrolling interests in the consolidated statements of financial position and operations, how to account for changes in noncontrolling interests and provides disclosure requirements. The provisions of SFAS 160 were effective beginning January 1, 2009. The adoption of SFAS 160 did not have a material impact on the Company's consolidated financial condition and results of operations.

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In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*. SFAS 141(R) establishes how an entity accounts for the identifiable assets acquired, liabilities assumed, and any noncontrolling interests acquired, how to account for goodwill acquired and determines what disclosures are required as part of a business combination. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, early adoption is prohibited. The adoption of this statement did not have any impact on the Company's consolidated financial condition and results of operations.

In February 2008, the FASB issued FASB Staff Position ("FSP") FAS 157-2, *Effective Date of FASB Statement No. 157*. This FSP delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years and interim periods beginning after November 15, 2008. The adoption of FSP FAS 157-2 did not have a material impact on the Company's consolidated financial condition and results of operations.

On April 9, 2009 the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FSP provides additional guidance for estimating fair value in accordance with SFAS No. 157, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. This FSP is effective for interim and annual reporting periods ending after June 15, 2009. The Company is currently evaluating the impact the adoption of this FSP will have on its consolidated financial position, results of operations and disclosures.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*. This statement requires enhanced disclosures regarding an entity's derivative and hedging activity to enable investors to better understand the effects on an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company adopted SFAS No. 161 as of January 1, 2009. See Note 11 for disclosures regarding derivative instruments and hedging activities.

In September 2008, the FASB issued FSP FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161*. This FSP amends SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*, to require disclosures by entities that assume credit risk through the sale of credit derivatives including credit derivatives embedded in a hybrid instrument to enable users of financial statements to assess the potential effect on its financial position, financial performance, and cash flows from these credit derivatives. This FSP also amends FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, to require additional disclosure about the current status of the payment/performance risk of a guarantee. FSP FAS 133-1 and FIN 45-4 are effective for financial statements issued for fiscal years and interim periods ending after November 15, 2008. The Company adopted FSP FAS 133-1 and FIN 45-4 effective January 1, 2009. The adoption did not have a material effect on the Company's consolidated financial condition and results of operations.

In December 2008, the FASB issued FSP FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*. This FSP requires that information about plan assets be disclosed, on an annual basis, based on the fair value disclosure requirements of SFAS No. 157. The Company would be required to separate plan assets into the three fair value hierarchy levels and provide a rollforward of the changes in fair value of plan assets classified as Level 3. The disclosures about plan assets required by this FSP are effective for fiscal years ending after December 15, 2009, but would have no effect on the Company's consolidated financial condition and results of operations.

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In January 2009, the FASB issued FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*. The FSP amends EITF 99-20's impairment model more consistent with SFAS No. 115 *Accounting for Certain Investments in Debt and Equity Securities*, removing its exclusive reliance on "market participant" estimate of future cash flows used in determining fair value. Changing the cash flows used to analyze other-than-temporary impairment from the "market participant" view to a holder's estimate of whether there has been a "probable" adverse change in estimated cash flows allows management to apply reasonable judgment in assessing whether an other-than-temporary impairment has occurred. The new FSP was effective for the Company as of December 31, 2008 and did not have a significant impact on the consolidated financial statements of the Company.

On April 9, 2009 the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. This FSP is effective for interim and annual reporting periods ending after June 15, 2009. The Company is currently evaluating the impact that the adoption of this statement will have on its consolidated financial position, results of operations and disclosures.

On April 9, 2009 the FASB issued FSP FAS 115-2 and SFAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. This FSP amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. This FSP is effective for interim and annual reporting periods ending after June 15, 2009. The company is currently evaluating the impact that the adoption of this FSP will have on its consolidated financial position, results of operations and disclosures.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not, or are not believed by management to, have a material impact on the Company's present or future consolidated financial statements.

(3) STOCKHOLDERS' EQUITY

The Company is restricted by state insurance laws as to dividend amounts which may be paid to stockholders without prior approval from the Colorado Division of Insurance. The Company did not pay cash dividends on common stock during the three months ended March 31, 2009 and 2008.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(4) EARNINGS PER SHARE

Basic earnings per share of common stock are computed by dividing net income by the weighted-average basic common shares outstanding during the period. Diluted earnings per share assumes the issuance of common shares applicable to stock options in the denominator.

	Three Months Ended March 31,			
	2009		2008	
	Class A	Class B	Class A	Class B
	(In thousands except per share amounts)			
Numerator for Basic and Diluted Earnings Per Share:				
Net income	$ 15,028		14,446	
Dividends – Class A shares	-		-	
Dividends – Class B shares	-		-	
Undistributed income	$ 15,028		14,446	
Allocation of net income:				
Dividends	$ -	-	-	-
Allocation of undistributed income	14,602	426	14,036	410
Net income	$ 14,602	426	14,036	410
Denominator:				
Basic earnings per share - weighted-average shares	3,426	200	3,423	200
Effect of dilutive stock options	3	-	24	-
Diluted earnings per share - adjusted weighted-average shares for assumed conversions	3,429	200	3,447	200
Basic Earnings Per Share	$ 4.26	2.13	4.10	2.05
Diluted Earnings Per Share	$ 4.26	2.13	4.07	2.05

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(5) PENSION AND OTHER POSTRETIREMENT PLANS

(A) Defined Benefit Pension Plans

The Company sponsors a qualified defined benefit pension plan covering substantially all employees. The plan provides benefits based on the participants' years of service and compensation. The Company makes annual contributions to the plan that comply with the minimum funding provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). On October 19, 2007, the Company's Board of Directors approved an amendment to freeze the Pension Plan as of December 31, 2007. The freeze ceased future benefit accruals to all participants and closed the Plan to any new participants. In addition, all participants became immediately 100% vested in their accrued benefits as of that date. Going forward future pension expense is projected to be minimal. Fair values of plan assets and liabilities are measured as of the prior December 31 for each respective year. The following summarizes the components of net periodic benefit cost.

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Service cost	$ -	180
Interest cost	262	272
Expected return on plan assets	(222)	(275)
Amortization of prior service cost	1	1
Amortization of net loss	148	80
Net periodic benefit cost	$ 189	258

The Company expects to contribute $1.8 million to the plan in 2009. During the three months ended March 31, 2009, the Company contributed $126,000 to the plan.

The Company also sponsors a non-qualified defined benefit plan primarily for senior officers. The plan provides benefits based on the participants' years of service and compensation. The pension obligations and administrative responsibilities of the plan are maintained by a pension administration firm, which is a subsidiary of American National Insurance Company ("ANICO"). ANICO has guaranteed the payment of pension obligations under the plan. However, the Company has a contingent liability with respect to the pension plan should these entities be unable to meet their obligations under the existing agreements. Also, the Company has a contingent liability with respect to the plan in the event that a plan participant continues employment with the Company beyond age seventy, the aggregate average annual participant salary increases exceed 10% per year, or any additional employees become eligible to participate in the plan. If any of these conditions are met, the Company would be responsible for any additional pension obligations resulting from these items. Amendments were made to the plan to allow an additional employee to participate and to change the benefit formula for the Chairman of the Company. As previously mentioned, these additional obligations are a liability to the Company. Effective December 31, 2004, this plan was frozen with respect to the continued accrual of benefits of the Chairman and the President of the Company in order to comply with law changes under the American Jobs Creation Act of 2004 ("Act").

Effective July 1, 2005, the Company established a second non-qualified defined benefit plan for the benefit of the Chairman of the Company. This plan is intended to provide for post-2004 benefit accruals that mirror and supplement the pre-2005 benefit accruals under the previously discussed non-qualified plan, while complying with the requirements of the Act.

Effective November 1, 2005, the Company established a third non-qualified defined benefit plan for the benefit of the President of the Company. This plan is intended to provide for post-2004 benefit accruals that supplement the pre-2005 benefit accruals under the first non-qualified plan as previously discussed, while complying with the requirements of the Act.

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The following summarizes the components of net periodic benefit costs for these non-qualified plans.

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Service cost	$ 37	193
Interest cost	308	241
Amortization of prior service cost	260	260
Amortization of net loss	198	101
Net periodic benefit cost	$ 803	795

The Company expects to contribute $2.0 million to these plans in 2009. During the three months ended March 31, 2009, the Company did not contribute to the plan.

(B) Defined Benefit Postretirement Plans

The Company sponsors two healthcare plans to provide postretirement benefits to certain fully-vested individuals. The following summarizes the components of net periodic benefit costs.

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Interest cost	$ 32	35
Amortization of net loss	-	7
Amortization of prior service cost	26	26
Net periodic benefit cost	$ 58	68

As previously disclosed in its financial statements for the year ended December 31, 2008, the Company expects to contribute minimal amounts to the plan in 2009.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(6) SEGMENT AND OTHER OPERATING INFORMATION

Under Statement of Financial Accounting Standards ("SFAS") No. 131, *Disclosures about Segments of an Enterprise and Related Information*, the Company defines its reportable operating segments as domestic life insurance, international life insurance, and annuities. These segments are organized based on product types and geographic marketing areas. A summary of segment information for the quarters ended March 31, 2009 and 2008 is provided below.

Selected Segment Information:

	Domestic Life Insurance	International Life Insurance	Annuities (In thousands)	All Others	Total
March 31, 2009:					
Selected Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	$ 64,022	218,487	538,634	-	821,143
Total segment assets	389,812	983,113	5,298,071	134,691	6,805,687
Future policy benefits	317,526	599,477	4,690,822	-	5,607,825
Other policyholder liabilities	13,125	19,768	101,786	-	134,679
Three Months Ended March 31, 2009:					
Condensed Income Statements:					
Premiums and contract revenues	$ 9,539	26,249	6,914	-	42,702
Net investment income	5,098	4,058	60,021	1,429	70,606
Other income	14	27	135	3,418	3,594
Total revenues	14,651	30,334	67,070	4,847	116,902
Policy benefits	3,821	7,724	1,483	-	13,028
Amortization of deferred acquisition costs	2,355	13,162	12,431	-	27,948
Universal life and investment annuity contract interest	2,272	3,720	29,274	-	35,266
Other operating expenses	2,730	3,506	3,194	3,283	12,713
Federal income taxes	1,173	746	6,988	538	9,445
Total expenses	12,351	28,858	53,370	3,821	98,400
Segment earnings	$ 2,300	1,476	13,700	1,026	18,502

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Selected Segment Information:

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Total
			(In thousands)		
March 31, 2008:					
Selected Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	$ 61,709	206,193	500,152	-	768,054
Total segment assets	403,186	812,575	5,489,342	123,456	6,828,559
Future policy benefits	320,225	565,910	4,675,936	-	5,562,071
Other policyholder liabilities	11,502	18,608	100,575	-	130,685
Three Months Ended March 31, 2008:					
Condensed Income Statements:					
Premiums and contract revenues	$ 6,619	23,485	6,008	-	36,112
Net investment income	5,161	3,039	50,297	933	59,430
Other income	6	12	38	3,083	3,139
Total revenues	11,786	26,536	56,343	4,016	98,681
Policy benefits	4,205	5,313	937	-	10,455
Amortization of deferred acquisition costs	2,287	8,791	15,171	-	26,249
Universal life and investment annuity contract interest	2,355	2,694	21,568	-	26,617
Other operating expenses	2,974	3,872	3,806	2,778	13,430
Federal income taxes	(12)	1,994	5,052	421	7,455
Total expenses	11,809	22,664	46,534	3,199	84,206
Segment earnings (losses)	$ (23)	3,872	9,809	817	14,475

Reconciliations of segment information to the Company's condensed consolidated financial statements are provided below.

	Three Months Ended March 31, 2009	2008
	(In thousands)	
Premiums and Other Revenue:		
Premiums and contract revenues	$ 42,702	36,112
Net investment income	70,606	59,430
Other income	3,594	3,139
Realized losses on investments	(5,345)	(44)
Total consolidated premiums and other revenue	$ 111,557	98,637

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	Three Months Ended March 31, 2009	2008
	(In thousands)	
Federal Income Taxes:		
Total segment Federal income taxes	$ 9,445	7,455
Taxes on realized losses on investments	(1,871)	(15)
Total consolidated Federal income taxes	$ 7,574	7,440

	Three Months Ended March 31, 2009	2008
	(In thousands)	
Net Earnings:		
Total segment earnings	$ 18,502	14,475
Realized losses on investments, net of taxes	(3,474)	(29)
Total consolidated net earnings	$ 15,028	14,446

	March 31, 2009	2008
	(In thousands)	
Assets:		
Total segment assets	$ 6,805,687	6,828,559
Other unallocated assets	47,297	32,515
Total consolidated assets	$ 6,852,984	6,861,074

(7) SHARE-BASED PAYMENTS

The Company has issued only nonqualified stock options and stock appreciation rights. The Company has a stock and incentive plan ("1995 Plan") which provides for the grant of any or all of the following types of awards to eligible employees: (1) stock options, including incentive stock options and nonqualified stock options; (2) stock appreciation rights, in tandem with stock options or freestanding; (3) restricted stock; and (4) performance awards. The 1995 Plan began on April 21, 1995, and was amended on June 25, 2004 to extend the termination date to April 20, 2010. The number of shares of Class A, $1.00 par value, common stock which may be issued under the 1995 Plan, or as to which stock appreciation rights or other awards may be granted, may not exceed 300,000. Effective June 20, 2008, the Company’s shareholders approved a 2008 Incentive Plan (“2008 Plan”). The 2008 Plan is substantially similar to the 1995 Plan and authorized an additional number of Class A, $1.00 per value, common stock shares eligible for issue not to exceed 300,000. These shares may be authorized and unissued shares.

All of the employees of the Company and its subsidiaries are eligible to participate in the two Plans. In addition, directors of the Company are eligible to receive the same types of awards as employees except that they are not eligible to receive incentive stock options. Company directors, including members of the Compensation and Stock Option Committee, are eligible for nondiscretionary stock options. The directors’ grants vest 20% annually following one full year of service to the Company from the date of grant. The employees’ grants vest 20% annually following three full years of service to the Company from the date of grant. All grants issued expire after ten years. On February 19, 2009, the Company awarded 29,393 stock appreciation rights to Company officers and 9,000 stock appreciation rights to Company directors at a market value price of $114.64. No awards were issued during the first quarter of 2008.

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Effective during March 2006, the Company adopted and implemented a limited stock buy-back program which provides option holders the additional alternative of selling shares acquired through the exercise of options directly back to the Company. Option holders may elect to sell such acquired shares back to the Company at any time within ninety (90) days after the exercise of options at the prevailing market price as of the date of notice of election. The buy-back program did not alter the terms and conditions of the Plan, however the program necessitated a change in accounting from the equity classification to the liability classification.

In August 2008, the Company implemented another limited stock buy-back program, substantially similar to the 2006 program, for shares issued under the 2008 Plan.

The Company uses the current fair value method to measure compensation cost. As of March 31, 2009 and 2008, the liability balance was $1.6 million and $6.4 million, respectively. A summary of shares available for grant and stock option activity is detailed below.

		Options Outstanding	
	Shares Available For Grant	Shares	Weighted-Average Exercise Price
Stock Options:	291,400	105,812	$ 174.33
Balance at January 1, 2009			
Exercised	-	-	-
Forfeited	-	-	-
Stock options granted	-	-	-
Balance at March 31, 2009	291,400	105,812	$ 174.33

	Stock Appreciation Rights Outstanding	
	Awards	Weighted-Average Exercise Price
Stock Appreciation Rights:		
Balance at January 1, 2009	2,750	$ 245.70
SARs granted February 19, 2009	38,393	114.64
Balance at March 31, 2009	41,143	$ 123.40

The total intrinsic value of options exercised was $0 and $1.6 million for the three months ended March 31, 2009 and 2008, respectively. The total share-based liabilities paid were $0 and $1.3 million for the three months ended March 31, 2009 and 2008, respectively. For the quarters ended March 31, 2009 and 2008, the total cash received from the exercise of options under the Plan was $0 and $0.3 million, respectively. There were no shares vested during the first quarter of 2009.

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The following table summarizes information about stock options and SARs outstanding at March 31, 2009.

	Options Outstanding		
	Number Outstanding	Weighted-Average Remaining Contractual Life	Options Exercisable
Exercise prices:			
$ 92.13	10,194	2.1 years	10,194
95.00	6,000	2.2 years	6,000
150.00	52,350	5.0 years	21,450
255.13	28,268	9.0 years	-
208.05	9,000	9.2 years	-
236.00	1,250	9.4 years	-
251.49	1,000	9.4 years	-
256.00	500	9.5 years	-
114.64	38,393	9.9 years	-
Totals	146,955		37,644
Aggregate intrinsic value (in thousands)	$ 321		$ 321

The aggregate intrinsic value in the table above is based on the closing stock price of $113.00 per share on March 31, 2009.

In estimating the fair value of the options outstanding at March 31, 2009 and December 31, 2008, the Company employed the Black-Scholes option pricing model with assumptions as detailed below.

	2009	2008
Expected term of options	1 to 9 years	2 to 10 years
Expected volatility:		
Range	28.41% to 101.39%	24.70% to 77.55%
Weighted-average	44.03%	37.10%
Expected dividend yield	0.30%	0.22%
Risk-free rate:		
Range	1.58% to 2.89%	1.44% to 2.40%
Weighted-average	2.27%	1.94%

The Company reviewed the contractual term relative to the options as well as perceived future behavior patterns of exercise. Volatility is based on the Company's historical volatility over the expected term.

The pre-tax compensation cost recognized in the financial statements related to the Plan was $(2.2) million and $(0.1) million for the three months ended March 31, 2009 and 2008, respectively. The related tax expense recognized was $0.8 million and $0 for the three months ended March 31, 2009 and 2008, respectively.

As of March 31, 2009, the total compensation cost related to nonvested options not yet recognized was $1.8 million. This amount is expected to be recognized over a weighted-average period of 2.5 years. The Company recognizes compensation cost over the graded vesting periods.

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(8) COMMITMENTS AND CONTINGENCIES

(A) Legal Proceedings

The Company is a defendant in two class action lawsuits. In one case, the Court has certified a class consisting of certain California policyholders age 65 and older alleging violations under California Business and Professions Code section 17200. The Court has additionally certified a subclass of 36 policyholders alleging fraud against their agent, and vicariously, against the Company. A second class action lawsuit in federal court in California is in discovery and the Company is currently opposing a recently filed motion for class certification. Management believes that the Company has good and meritorious defenses and intends to continue to vigorously defend itself against these claims.

The Company is involved or may become involved in various other legal actions, in the normal course of business, in which claims for alleged economic and punitive damages have been or may be asserted, some for substantial amounts. Although there can be no assurances, at the present time, the Company does not anticipate that the ultimate liability arising from potential, pending, or threatened legal actions, will have a material adverse effect on the financial condition or operating results of the Company.

In January 2009, the SEC published its newly adopted rule 151A, *Indexed Annuities and Certain Other Insurance Contracts.* This rule defines "indexed annuities to be securities and thus subject to regulation by the SEC and under federal securities laws". Currently indexed annuities sold by life insurance companies are regulated by the States as Insurance products and Section 3(a)(8) of the Securities Act of 1933 provides an exemption for certain "annuity contracts," "optional annuity contracts," and other insurance contracts. The new rule is not effective until January 12, 2011. The Company and others have filed suit in the U. S. Court of Appeals for the District of Columbia to overturn this rule. The court heard oral arguments on May 8, 2009, and is expected to issue its ruling before September 2009. In the event rule 151A is not overturned, it could have a material effect on our business, results of operations and financial condition.

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(9) INVESTMENTS

(A) Debt and Equity Securities

The tables below present amortized cost and fair values of securities held to maturity and securities available for sale at March 31, 2009.

	Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. Agencies	$ 48,190	3,554	-	51,744
U.S. Treasury	1,922	546	-	2,468
States and political subdivisions	27,306	298	387	27,217
Foreign governments	9,957	737	-	10,694
Public utilities	611,700	8,902	22,180	598,422
Corporate	1,420,419	15,962	129,897	1,306,484
Mortgage-backed	1,735,321	83,253	2,904	1,815,670
Asset-backed	65,676	153	18,355	47,474
Totals	$ 3,920,491	113,405	173,723	3,860,173

	Securities Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. Agencies	$ -	-	-	-
U.S. Treasury	-	-	-	-
States and political subdivisions	76,793	389	6,809	70,373
Foreign governments	10,403	690	-	11,093
Public utilities	298,441	1,364	16,001	283,804
Corporate	1,230,730	8,852	126,003	1,113,579
Mortgage-backed	250,987	10,018	6,134	254,871
Asset-backed	25,463	-	9,026	16,437
Equity securities	6,777	7,231	1,177	12,831
Totals	$ 1,899,594	28,544	165,150	1,762,988

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The tables below present amortized cost and fair values of securities held to maturity and securities available for sale at December 31, 2008.

	Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. Agencies	$ 119,674	3,975	-	123,649
U.S. Treasury	1,923	592	-	2,515
States and political subdivisions	23,123	3	801	22,325
Foreign governments	9,955	438	-	10,393
Public utilities	527,277	5,073	31,530	500,820
Corporate	1,334,157	13,580	118,204	1,229,533
Mortgage-backed	1,747,104	44,213	8,210	1,783,107
Asset-backed	68,204	130	13,323	55,011
Totals	$ 3,831,417	68,004	172,068	3,727,353

	Securities Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. Agencies	$ -	-	-	-
U.S. Treasury	-	-	-	-
States and political subdivisions	77,160	332	13,653	63,839
Foreign governments	10,418	907	-	11,325
Public utilities	287,927	300	25,085	263,142
Corporate	1,239,712	6,503	126,968	1,119,247
Mortgage-backed	255,910	5,739	7,693	253,956
Asset-backed	25,819	-	5,745	20,074
Equity securities	7,107	7,481	905	13,683
Totals	$ 1,904,053	21,262	180,049	1,745,266

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The following table shows the gross unrealized losses and fair values of the Company's investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at March 31, 2009.

	Held to Maturity					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U.S. Agencies	$ -	-	-	-	-	-
U.S. Treasury	-	-	-	-	-	-
State and political subdivisions	7,609	(136)	3,041	(251)	10,650	(387)
Foreign governments	-	-	-	-	-	-
Public utilities	246,211	(12,786)	113,041	(9,394)	359,252	(22,180)
Corporate bonds	557,379	(52,498)	303,618	(77,399)	860,997	(129,897)
Mortgage-backed	23,471	(638)	39,786	(2,266)	63,257	(2,904)
Asset-backed	16,748	(2,107)	25,539	(16,248)	42,287	(18,355)
Total temporarily impaired securities	$ 851,418	(68,165)	485,025	(105,558)	1,336,443	(173,723)

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

	Available For Sale					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U. S. Agencies	$ -	-	-	-	-	-
U.S. Treasury	-	-	-	-	-	-
State and political subdivisions	45,409	(5,719)	15,740	(1,090)	61,149	(6,809)
Foreign governments	-	-	-	-	-	-
Public utilities	108,175	(5,189)	107,313	(10,812)	215,488	(16,001)
Corporate bonds	469,875	(54,904)	353,872	(71,099)	823,747	(126,003)
Mortgage-backed	39,126	(1,401)	9,809	(4,733)	48,935	(6,134)
Asset-backed	9,196	(1,014)	7,241	(8,012)	16,437	(9,026)
	671,781	(68,227)	493,975	(95,746)	1,165,756	(163,973)
Equity securities	1,992	(641)	1,996	(536)	3,988	(1,177)
Total temporarily impaired securities	$ 673,773	(68,868)	495,971	(96,282)	1,169,744	(165,150)

Debt securities. The gross unrealized losses for debt securities at March 31, 2009 are made up of 414 individual issues, or 52.4% of the total debt securities held by the Company. The market value of these bonds as a percent of amortized cost averages 88.1%. Of the 414 securities, 177, or approximately 42.8%, fall in the 12 months or greater aging category; of the 414 debt securities, 392 were rated investment grade at March 31, 2009. Additional information on debt securities by investment category is summarized below:

State and political subdivisions. The unrealized losses on these investments are the result of holdings in 52 securities. Of these securities, all are rated A or above except one which is rated BB+. Based on these facts and the Company's intent to hold to maturity, no other-than-temporary loss was recognized as of March 31, 2009.

Public utilities. Of the 88 securities, all are rated BBB or above except two, one is priced at 94% of par and the other at 70% of par. At this time, the Company does not consider any of these unrealized losses as other-than-temporary.

Corporate bonds. Corporate securities with unrealized losses are reviewed based on monitoring procedures including; review of the amount of the unrealized loss, the length of time that the issue has been in an unrealized loss position, credit ratings, analyst reports, and recent issuer financial information. A total of 232 securities had unrealized losses; with 14 issues rated below investment grade. More extensive analysis was performed on these 14 issues and based on the work performed, none of the unrealized losses are considered other-than-temporarily impaired at March 31, 2009.

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Mortgage-backed securities. These securities are all rated AAA. The Company generally purchases these investments at a discount relative to their face amount and it is expected that the securities will not be settled at a price less than the stated par. Because the decline in market value is attributable to the current illiquidity in the market and not credit quality, and because the Company has the ability and intent to hold these securities until a recovery of fair value, which may be maturity, and based on the lack of adverse changes in expected cash flows, the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2009.

Asset-backed securities. Of the 28 securities, 18 are rated AAA, 2 are rated AA and 8 are rated below AA. The Company performs a quarterly cash flow analysis on asset-backed securities that are rated below AA. Based on the lack of adverse changes in expected cash flows, the 8 issues rated below AA are not considered impaired.

Equity securities. The gross unrealized losses for equity securities are made up of 72 individual issues. These holdings are reviewed for impairment quarterly. During the three months ended March 31, 2009, the Company recorded other-than-temporary impairments on 18 equity securities.

Management believes the declines in value are temporary for all of the securities for which other-than-temporary impairment has not been recorded and the Company has the intent and ability to hold the securities until a market price recovery.

The following table shows the gross unrealized losses and fair values of the Company's investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at December 31, 2008.

	Held to Maturity					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U.S. Agencies	$ -	-	-	-	-	-
U.S. Treasury	-	-	-	-	-	-
State and political subdivisions	9,687	(631)	2,635	(170)	12,322	(801)
Foreign governments	-	-	-	-	-	-
Public utilities	312,575	(21,485)	84,474	(10,045)	397,049	(31,530)
Corporate bonds	518,841	(52,581)	278,975	(65,623)	797,816	(118,204)
Mortgage-backed	4,624	(299)	54,582	(7,911)	59,206	(8,210)
Asset-backed	23,408	(1,963)	26,681	(11,360)	50,089	(13,323)
Total temporarily impaired securities	$ 869,135	(76,959)	447,347	(95,109)	1,316,482	(172,068)

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	Available For Sale					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U.S. Agencies	$ -	-	-	-	-	-
U.S. Treasury	-	-	-	-	-	-
State and political subdivisions	45,848	(8,675)	13,486	(4,978)	59,334	(13,653)
Foreign governments	-	-	-	-	-	-
Public utilities	148,901	(9,286)	105,498	(15,799)	254,399	(25,085)
Corporate bonds	560,028	(56,214)	367,933	(70,754)	927,961	(126,968)
Mortgage-backed	-	-	48,540	(7,693)	48,540	(7,693)
Asset-backed	11,745	(3,612)	8,329	(2,133)	20,074	(5,745)
	766,522	(77,787)	543,786	(101,357)	1,310,308	(179,144)
Equity securities	2,057	(577)	1,205	(328)	3,262	(905)
Total temporarily impaired securities	$ 768,579	(78,364)	544,991	(101,685)	1,313,570	(180,049)

(B) Investment Gains and Losses

The table below presents realized investment gains and losses for the periods indicated.

	Three months ended March 31,	
	2009	2008
	(In thousands)	
Available for sale debt securities:		
Realized gains on disposal	$ 58	57
Realized losses on disposal	(150)	-
Held to maturity debt securities:		
Realized gains on disposal	79	122
Realized losses on disposal	(5)	-
Impairments on debt securities	(4,875)	(258)
Equity securities realized gains (losses)	(41)	7
Equity securities impairments	(405)	-
Mortgage loans	(6)	-
Other	-	28
Totals	$ (5,345)	(44)

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(10) FAIR VALUES OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires additional disclosures about fair value measurements.

In compliance with SFAS No. 157, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded at fair value on the Condensed Consolidated Balance Sheets are categorized as follows:

Level 1: Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. These generally provide the most reliable evidence and are used to measure fair value whenever available. The Company's Level 1 assets include equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

Level 2: Fair value is based upon significant inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable for substantially the full term of the asset or liability through corroboration with observable market data as of the reporting date. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, model-derived valuations whose inputs are observable or whose significant value drivers are observable and other observable inputs. The Company's Level 2 assets include fixed maturity debt securities (corporate and private bonds, government or agency securities, asset-backed and mortgage-backed securities), preferred stock, certain equity securities, and over-the-counter derivative contracts. The Company's Level 2 liabilities consist of certain product-related embedded derivatives. Valuations are generally obtained from third party pricing services for identical or comparable assets or determined through use of valuation methodologies using observable market inputs.

Level 3: Fair value is based on significant unobservable inputs which reflect the entity's or third party pricing service assumptions about the assumptions market participants would use in pricing an asset or liability. The Company's Level 3 assets include certain equity securities and certain less liquid or private fixed maturity debt securities where significant valuation inputs cannot be corroborated with market observable data. The Company's Level 3 liabilities consist of share-based compensation obligations. Valuations are estimated based on non-binding broker prices or internally developed valuation models or methodologies, discounted cash flow models and other similar techniques.

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The following table sets forth the Company's assets and liabilities that are measured at fair value on a recurring basis as of the date indicated:

Description	March 31, 2009			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale	$ 1,750,157	-	1,743,181	6,976
Equity securities, available for sale	12,831	5,674	-	7,157
Derivatives	9,116	-	9,116	-
Total assets	$ 1,772,104	5,674	1,752,297	14,133
Policyholder account balances (a)	$ 16,027	-	16,027	-
Other liabilities (b)	1,573	-	-	1,573
Total liabilities	$ 17,600	-	16,207	1,573

Description	December 31, 2008			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale	$ 1,731,583	-	1,721,341	10,242
Equity securities, available for sale	13,683	6,493	-	7,190
Derivatives	11,920	-	11,920	-
Total assets	$ 1,757,186	6,493	1,733,261	17,432
Policyholder account balances (a)	$ 19,377	-	19,377	-
Other liabilities (b)	3,787	-	-	3,787
Total liabilities	$ 23,164	-	19,377	3,787

(a) Represents the fair value of certain product-related embedded derivatives that were recorded at fair value.
(b) Represents the liability for share-based compensation.

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The following tables provide additional information about fair value measurements for which significant unobservable (Level 3) inputs were utilized to determine fair value.

	For the Three Months Ended March 31, 2009			
	Debt Securities, Available For Sale	Equity Securities, Available For Sale	Total Assets	Other Liabilities
	(In thousands)			
Beginning balance, January 1, 2009	$ 10,242	7,190	17,432	3,787
Total realized and unrealized gains (losses):				
Included in net income	-	-	-	(2,275)
Included in other comprehensive loss	(3,264)	(33)	(3,297)	-
Purchases, sales, issuances and settlements, net	(2)	-	(2)	61
Transfers into (out of) Level 3	-	-	-	-
Ending balance, March 31, 2009	$ 6,976	7,157	14,133	1,573
Amount of total gains (losses) for the period included in net income attributable to the change in unrealized gains (losses) relating to assets still held as of March 31, 2009	$ -	-	-	(2,275)

Realized gains (losses) on debt and equity securities are reported in the consolidated statements of earnings as net investment gains (losses), unrealized gain (losses) on available for sale debt and equity securities are reported as other comprehensive income (loss) within stockholders' equity.

The fair value hierarchy classifications are reviewed each reporting period. Reclassification of certain financial assets and liabilities may result based on changes in the observability of valuation attributes. Reclassifications are reported as transfers into and out of Level 3 at the beginning fair value for the reporting period in which the changes occur.

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy at March 31, 2009 are as follows:

Description	Total	Level 1	Level 2	Level 3
	(In thousands)			
Impaired held to maturity securities	$ 3,534	-	-	3,534

In accordance with the provisions of EITF 99-20, the Company recorded other-than-temporary impairments on certain held-to-maturity securities during the three months ended March 31, 2009 due to adverse changes in cash flows. These securities had a carrying value of $4.3 million and were written down to their fair market value of $3.5 million.

As of December 31, 2008, all held-to-maturity securities for which an other-than-temporary impairment had been recorded were transferred to available-for-sale due to the events leading to the writedowns also providing evidence of a significant deterioration in the issuers' creditworthiness.

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Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(11) Derivative Investments

Fixed-indexed products provide traditional fixed annuities and universal life contracts with the option to have credited interest rates linked in part to an underlying equity index or a combination of equity indices. The equity return component of such policy contracts is identified separately and accounted for in future policy benefits as embedded derivatives on the consolidated balance sheet. The remaining portions of these policy contracts are considered the host contracts and are recorded separately as fixed annuity or universal life contracts. The host contracts are accounted for under debt instrument type accounting in which future policy benefits are recorded as discounted debt instruments that are accreted, using the effective yield method, to their minimum account values at their projected maturities or termination dates.

The Company purchases over-the-counter index options, which are derivative financial instruments, to hedge the equity return component of its fixed-indexed annuity and life products. The index options act as hedges to match closely the returns on the underlying index or indices. The amounts which may be credited to policyholders are linked, in part, to the returns of the underlying index or indices. As a result, changes to policyholders' liabilities are substantially offset by changes in the value of the options. Cash is exchanged upon purchase of the index options and no principal or interest payments are made by either party during the option periods. Upon maturity or expiration of the options, cash is paid to the Company based on the underlying index or indices performance and terms of the contract.

The Company does not elect hedge accounting relative to these derivative instruments. The index options are reported at fair value in the accompanying consolidated financial statements. The changes in the values of the index options and the changes in the policyholder liabilities are both reflected in the condensed consolidated statement of earnings. Any changes relative to the embedded derivatives associated with policy contracts are reflected in contract interest in the condensed consolidated statement of earnings. Any gains or losses from the sale or expiration of the options, as well as period-to-period changes in values, are reflected as net investment income in the condensed consolidated statement of earnings.

Although there is credit risk in the event of nonperformance by counterparties to the index options, the Company does not expect any counterparties to fail to meet their obligations, given their high credit ratings. In addition, credit support agreements are in place with all counterparties for option holdings in excess of specific limits, which may further reduce the Company's credit exposure. At March 31, 2009 and 2008, the fair values of index options owned by the Company totaled $9.1 million and $8.1 million, respectively.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The table below presents the fair value of derivative instruments of March 31, 2009.

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
		(In millions)		(In millions)
Derivatives not designated as hedging instruments under statement 133				
Equity index options	Derivatives, Index Options	$ 9,166		
Fixed-index products			Universal Life and Annuity Contracts	$ 16,027
Total		$ 9,166		$ 16,027

The table below presents the effect of derivative instruments in the condensed consolidated statement of earnings for the three months ended March 31, 2009.

Derivatives Not Designated as Hedging Instruments Under Statement 133	Location of Gain or (Loss) Recognized In Income on Derivative	Amount of Gain or (Loss) Recognized In Income on Derivative
		(In millions)
Equity index options	Net investment income	$ (12,970)
Fixed-index products	Universal life and annuity contract interest	3,350
		$ (9,620)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements. Certain information contained herein or in other written or oral statements made by or on behalf of National Western Life Insurance Company or its subsidiaries is or may be viewed as forward-looking. Although the Company has taken appropriate care in developing any such information, forward-looking information involves risks and uncertainties that could significantly impact actual results. These risks and uncertainties include, but are not limited to, matters described in the Company’s SEC filings such as exposure to market risks, anticipated cash flows or operating performance, future capital needs, and statutory or regulatory related issues. However, National Western, as a matter of policy, does not make any specific projections as to future earnings, nor does it endorse any projections regarding future performance that may be made by others. Whether or not actual results differ materially from forward-looking statements may depend on numerous foreseeable and unforeseeable events or developments. Also, the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future developments, or otherwise.

Management’s discussion and analysis of financial condition and results of operations (“MD&A”) of National Western Life Insurance Company for the three months ended March 31, 2009 follows. This discussion should be read in conjunction with the Company’s condensed consolidated financial statements and related notes beginning on page 3 of this report.

Overview

The Company provides life insurance products on a global basis for the savings and protection needs of policyholders and annuity contracts for the asset accumulation and retirement needs of contractholders both domestically and internationally. The Company accepts funds from policyholders or contractholders and establishes a liability representing future obligations to pay the policy or contract-holders and their beneficiaries. To ensure the Company will be able to pay these future commitments, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed income securities.

Due to the business of accepting funds to pay future obligations in later years, the underlying economics and relevant factors affecting the life insurance industry include the following:

- level of premium revenues collected
- persistency of policies and contracts
- returns on investments
- investment credit quality
- levels of policy benefits and costs to acquire business
- effect of interest rate changes on revenues and investments including asset and liability matching
- adequate levels of capital and surplus

The Company monitors these factors continually as key business indicators. The discussion that follows in this Item includes these indicators and presents information useful to an overall understanding of the Company’s business performance in 2009, incorporating required disclosures in accordance with the rules and regulations of the Securities and Exchange Commission.

Insurance Operations - Domestic

The Company is currently licensed to do business in all states except for New York. Products marketed are annuities, universal life insurance, fixed-indexed annuities and fixed-indexed universal life, and traditional life insurance, which include both term and whole life products. The Company’s domestic sales have historically been more heavily weighted toward annuity products, which include single and flexible premium deferred annuities, single premium immediate annuities, and fixed-indexed annuities. Most of these annuities can be sold as tax qualified or nonqualified products. At March 31, 2009, the Company maintained approximately 117,000 annuity policies in force.

National Western markets and distributes its domestic products primarily through independent national marketing organizations ("NMOs"). These NMOs assist the Company in recruiting, contracting, and managing independent agents. The Company currently has approximately 4,600 independent agents contracted. Roughly 30% of these contracted agents have submitted policy applications to the Company in the past twelve months.

Insurance Operations - International

The Company's international operations focus on foreign nationals in upper socioeconomic classes. Insurance products are issued primarily to residents of countries in Central and South America, the Caribbean, Eastern Europe, Asia and the Pacific Rim. Issuing policies to residents of countries in these different regions provides diversification that helps to minimize large fluctuations that could arise due to various economic, political, and competitive pressures that may occur from one country to another. Products issued to international residents are almost entirely universal life and traditional life insurance products. However, certain annuity and investment contracts are also available. At March 31, 2009, the Company had approximately 73,680 international life insurance policies in force representing approximately $15.8 billion in face amount of coverage.

International applications are submitted by independent contractor consultants and broker-agents. The Company has approximately 5,000 independent international consultants and brokers currently contracted, 41% of which have submitted policy applications to the Company in the past twelve months.

There are some inherent risks of accepting international applications which are not present within the domestic market that are reduced substantially by the Company in several ways. As previously described, the Company accepts applications from foreign nationals in upper socioeconomic classes who have substantial financial resources. This targeted customer base coupled with the Company's conservative underwriting practices have historically resulted in claims experience, due to natural causes, similar to that in the United States. The Company minimizes exposure to foreign currency risks by requiring payment of premiums, claims and other benefits almost entirely in United States dollars. The Company's over forty years of experience with the international products and its longstanding independent consultant and broker-agents relationships further serve to minimize risks.

SALES

Life Insurance

The following table sets forth information regarding the Company's life insurance sales activity as measured by annualized first year premiums. While the figures shown below are in accordance with industry practice and represent the amount of new business sold during the periods indicated, they are considered a non-GAAP financial measure. The Company believes sales are a measure of distribution productivity and are a leading indicator of future revenue trends. However, revenues are driven by sales in prior periods as well as in the current period and therefore, a reconciliation of sales to revenues is not meaningful or determinable.

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
International:		
Universal life	$ 3,539	3,230
Traditional life	1,348	1,354
Fixed-indexed life	1,800	4,107
	6,687	8,691
Domestic:		
Universal life	232	899
Traditional life	46	38
Fixed-indexed life	500	2,332
	778	3,269
Totals	$ 7,465	11,960

Life insurance sales as measured by annualized first year premiums declined 38% in the first quarter of 2009 as compared to the first quarter of 2008. Both of the Company's life insurance lines of business, international and domestic, posted decreases over the comparable results in the first quarter of 2008 with international sales 23% lower and domestic life sales down 76%.

Management has placed considerable emphasis on building domestic life insurance sales as a strategic focus for future growth. This focus was partially in response to comments from outside rating agencies who expressed a preference for a greater proportion of overall Company earnings to derive from the life insurance line of business. The Company's domestic operations have historically been more heavily skewed toward annuity sales than on life insurance sales. The Company spent the greater part of 2003 and 2004 revamping its domestic life operations by changing the way it contracts distribution for life business, eliminating products and distribution that had not contributed significantly to earnings, and creating new and competitive products. A single premium universal life ("SPUL") product was launched at the end of 2003 beginning a diversification of the Company's product portfolio away from smaller dollar face amount policies. The Company released its first fixed equity-indexed universal life ("EIUL") product for its domestic markets at the end of 2005. Since its introduction, this product has generally accounted for 40% to 60% of domestic life insurance sales. The Company subsequently developed hybrids of the initial EIUL and SPUL products, combining features, and discontinued the marketing of smaller premium and volume life insurance policies. As a result, the Company attracted new independent distributors with access to customers purchasing larger face amounts of insurance per policy. During the latter part of 2008, the Company's internal checking and monitoring procedures detected potential instances of rebating in certain geographic markets and instituted commission caps and other preventive procedures to discourage this practice. Although not illegal in these markets, the practice of rebating is particularly prone to large face amount policies not renewing premium payments beyond the initial year of the policy. The Company's actions discouraged sales of larger face amounts resulting in lower sales levels and amounts of insurance per policy as shown below.

	Average New Policy Face Amount	
	Domestic	International
Year ended December 31, 2004	101,700	234,500
Year ended December 31, 2005	137,900	245,900
Year ended December 31, 2006	315,800	254,700
Year ended December 31, 2007	416,800	251,000
Year ended December 31, 2008	455,200	272,000
Three months ended March 31, 2009	200,300	294,700

The Company's international life business consists of applications submitted from residents in various regions outside of the United States, the volume of which typically varies based upon changes in the socioeconomic climates of these regions. Historically, the Company has experienced a simultaneous combination of rising and declining sales in various countries; however, the appeal of the Company's dollar-denominated life insurance products overcomes many of the local and national difficulties. In the "financial crisis" economic climate of the past 12 to 18 months, individuals in countries outside of the United States have become increasingly leery of the U.S. economy and the stability of financial institutions and markets. These concerns have manifested in the past several quarters via reduced international sales.

Applications submitted from residents of Latin America and the Pacific Rim perennially have comprised the majority of the Company's international life insurance sales. Over the past few years, new sales efforts were directed toward the sale of a traditional endowment form of life insurance product for residents of Eastern European and the Commonwealth of Independent States (former Soviet Union). As noted previously, the Company's international sales by geographic market tend to fluctuate with the socio and economic climates in these regions. The Company's mix of international sales by geographic region is as follows.

	Three Months Ended March 31,	
	2009	2008
Percentage of International Sales:		
Latin America	65.8%	60.1%
Pacific Rim	23.5	25.3
Eastern Europe	10.7	14.6
Totals	100.0%	100.0%

Year-to-date, the Company has recorded sales to residents outside of the United States in over thirty different countries with Taiwan (22%), Brazil (19%), and Venezuela (10%) making up the largest markets.

The table below sets forth information regarding the Company's life insurance in force for each date presented.

	Insurance In Force as of March 31,	
	2009	2008
	($ in thousands)	
Universal life:		
Number of policies	68,450	73,140
Face amounts	$ 7,785,350	8,157,590
Traditional life:		
Number of policies	49,020	51,230
Face amounts	$ 2,184,620	1,856,520
Fixed-indexed life:		
Number of policies	28,080	25,520
Face amounts	$ 6,534,820	5,828,780
Rider face amounts	$ 2,151,320	2,088,800
Total life insurance:		
Number of policies	145,550	149,890
Face amounts	$ 18,656,110	17,931,690

Annuities

The following table sets forth information regarding the Company's annuity sales activity as measured by single and annualized first year premiums. Similar to life insurance sales, these figures are considered a non-GAAP financial measure but are shown in accordance with industry practice and depict the Company's sales productivity.

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Fixed-indexed annuities	$ 106,865	73,008
Other deferred annuities	44,093	25,822
Immediate annuities	5,814	1,728
Total	$ 156,772	100,558

Annuity sales for the first quarter of 2009 were 56% higher than the comparable period in 2008 reversing a declining trend of the past several years. Since 2003 when the Company achieved nearly $1.2 billion in sales, annuity sales have trended lower due to a combination of declining interest rates, investors returning to alternative investment vehicles, rating agency concerns regarding the percentage of new business derived from the annuity line of business, and the Company managing its targeted levels of risk and statutory capital and surplus. In addition, during a large portion of the past several years the interest rate yield curve has either been inverted (shorter term rates higher than longer term rates) or relatively flat. In such an interest rate environment, consumers tend toward short term investment vehicles such as bank certificates of deposits rather than longer term choices which include fixed rate annuities.

The recessionary contraction and financial market crisis that began in the latter half of 2007 has impacted many annuity carriers. Losses from investment impairments and equity exposure through variable annuity product offerings have crippled the capital position of numerous insurers and limited their ability to write new business. The Company’s substantial capital position achieved through ongoing operating profitability and limited investment loss exposure has positioned it to write additional levels of annuity new business. The sales increase in the first quarter of 2009 over the first quarter of 2008 is indicative of the Company’s enhanced competitive position in the marketplace. Management has performed analyses of the capital strain associated with incrementally higher levels of annuity new business and determined that the Company’s capital position is more than sufficient to handle increased sales activity.

The Company's mix of annuity sales tends to shifts with interest rate levels and the relative performance of the equity market. Over the past several years, sales of fixed-indexed products have consistently accounted for more than one-half of all annuity sales and were 68% of annuity activity during the first three months of 2009. For all fixed-indexed products, the Company purchases over the counter options to hedge the equity return feature. The options are purchased relative to the issuance of the annuity contracts in such a manner to minimize timing risk. Generally, the index return during the indexing period (if the underlying index increases) becomes a component in a formula (set forth in the annuity), the result of which is credited as interest to contract holders electing the index formula crediting method at the beginning of the indexing period. The formula result can never be less than zero with these products. The Company does not deliberately mismatch or under hedge for the equity feature of the products. Fixed-indexed products also provide the contractholder the alternative to elect a fixed interest rate crediting option. With the performance of the equity markets over the past eighteen months, an increasing percentage of fixed-indexed contractholders have elected this crediting option.

The level of annuity sales volume the past several years has required a greater level of asset/liability analysis. The Company monitors its asset/liability matching within the self-constraints of desired capital levels and risk tolerance. Despite the amounts of new business, the Company's capital level remains substantially above industry averages and regulator targets.

The following table sets forth information regarding annuities in force for each date presented.

	Annuities In Force as of March 31,	
	2009	2008
	($ in thousands)	
Fixed-indexed annuities		
Number of policies	33,390	32,380
GAAP annuity reserves	$ 2,050,431	1,959,740
Other deferred annuities		
Number of policies	68,630	73,230
GAAP annuity reserves	$ 2,295,391	2,451,216
Immediate annuities		
Number of policies	14,980	13,510
GAAP annuity reserves	$ 340,541	262,237
Total annuities		
Number of policies	117,000	119,120
GAAP annuity reserves	$ 4,686,363	4,673,193

Critical Accounting Policies

Accounting policies discussed below are those considered critical to an understanding of the Company's financial statements.

Impairment of Investment Securities. The Company's accounting policy requires that a decline in the value of a security below its amortized cost basis be evaluated to determine if the decline is other-than-temporary. The primary factors considered in evaluating whether a decline in value for fixed income and equity securities is other-than-temporary include: (a) the length of time and the extent to which the fair value has been less than cost, (b) the reasons for the decline in value (credit event, interest rate related, credit spread widening), (c) the overall financial condition as well as the near-term prospects of the issuer, (d) whether the debtor is current on contractually obligated principal and interest payments, and (e) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for any anticipated recovery. In addition, certain securitized financial assets with contractual cash flows are evaluated periodically by the Company to update the estimated cash flows over the life of the security. If the Company determines that the fair value of the securitized financial asset is less than its carrying amount and there has been a decrease in the present value of the estimated cash flows since the previous purchase or prior impairment, then an other-than-temporary impairment charge is recognized. The Company would recognize impairment of securities due to changing of interest rates or market dislocations only if the Company no longer had the ability to hold the securities until recovery or maturity. When a security is deemed to be impaired a charge is recorded as a realized loss equal to the difference between the fair value and amortized cost basis of the security. Once an impairment charge has been recorded, the fair value of the impaired investment becomes its new cost basis and the Company continues to review the other-than-temporarily impaired security for appropriate valuation on an ongoing basis. However, the new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value.

Deferred Acquisition Costs ("DAC"). The Company is required to defer certain policy acquisition costs and amortize them over future periods. These costs include commissions and certain other expenses that vary with and are primarily associated with acquiring new business. The deferred costs are recorded as an asset commonly referred to as deferred policy acquisition costs. The DAC asset balance is subsequently charged to income over the lives of the underlying contracts in relation to the anticipated emergence of revenue or profits. Actual revenue or profits can vary from Company estimates resulting in increases or decreases in the rate of amortization. The Company does regular evaluations to determine if actual experience or other evidence suggests that earlier estimates should be revised. Assumptions considered significant include surrender and lapse rates, mortality, expense levels, investment performance, and estimated interest spread. Should actual experience dictate that the Company change its assumptions regarding the emergence of future revenues or profits (commonly referred to as "unlocking"), the Company would record a charge or credit to bring its DAC balance to the level it would have been if using the new assumptions from the inception date of each policy.

DAC is also subject to periodic recoverability and loss recognition testing. These tests ensure that the present value of future contract-related cash flows will support the capitalized DAC balance to be amortized in the future. The present value of these cash flows, less the benefit reserve, is compared with the unamortized DAC balance and if the DAC balance is greater, the deficiency is charged to expense as a component of amortization and the asset balance is reduced to the recoverable amount.

Deferred Sales Inducements. Costs related to sales inducements offered on sales to new customers, principally on investment type contracts and primarily in the form of additional credits to the customer's account value or enhancements to interest credited for a specified period, which are beyond amounts currently being credited to existing contracts, are deferred and recorded as other assets. All other sales inducements are expensed as incurred and included in interest credited to contract holders' funds. Deferred sales inducements are amortized to income using the same methodology and assumptions as DAC, and are included in interest credited to contract holders' funds. Deferred sales inducements are periodically reviewed for recoverability.

Future Policy Benefits. Because of the long-term nature of insurance contracts, the Company is liable for policy benefit payments many years into the future. The liability for future policy benefits represents estimates of the present value of the Company's expected benefit payments, net of the related present value of future net premium collections. For traditional life insurance contracts, this is determined by standard actuarial procedures, using assumptions as to mortality (life expectancy), morbidity (health expectancy), persistency, and interest rates, which are based on the Company's experience with similar products. The assumptions used are those considered to be appropriate at the time the policies are issued. An additional provision is made on most products to allow for possible adverse deviation from the assumptions assumed. For universal life and annuity products, the Company's liability is the amount of the contract's account balance. Account balances are also subject to minimum liability calculations as a result of minimum guaranteed interest rates in the policies. While management and Company actuaries have used their best judgment in determining the assumptions and in calculating the liability for future policy benefits, there is no assurance that the estimate of the liabilities reflected in the financial statements represents the Company's ultimate obligation. In addition, significantly different assumptions could result in materially different reported amounts.

Revenue Recognition. Premium income for the Company's traditional life insurance contracts is generally recognized as the premium becomes due from policyholders. For annuity and universal life contracts, the amounts collected from policyholders are considered deposits and are not included in revenue. For these contracts, fee income consists of policy charges for policy administration, cost of insurance charges and surrender charges assessed against policyholders' account balances which are recognized in the period the services are provided.

Investment activities of the Company are integral to its insurance operations. Since life insurance benefits may not be paid until many years into the future, the accumulation of cash flows from premium receipts are invested with income reported as revenue when earned. Anticipated yields on investments are reflected in premium rates, contract liabilities, and other product contract features. These anticipated yields are implied in the interest required on the Company's net insurance liabilities (future policy benefits less deferred acquisition costs) and contractual interest obligations in its insurance and annuity products. The Company benefits to the extent actual net investment income exceeds the required interest on net insurance liabilities and manages the rates it credits on its products to maintain the targeted excess or "spread" of investment earnings over interest credited. The Company will continue to be required to provide for future contractual obligations in the event of a decline in investment yield. For more information concerning revenue recognition, investment accounting, and interest sensitivity, please refer to Note 1, Summary of Significant Accounting Policies, Note 9, Investments, in the Notes to Consolidated Financial Statements.

Pension Plans and Other Postretirement Benefits. The Company sponsors a qualified defined benefit pension plan, which was frozen effective December 31, 2007, covering substantially all employees, and three nonqualified defined benefit plans covering certain senior officers. In addition, the Company has postretirement health care benefits for certain senior officers. The freeze of the qualified benefit pension plan ceased future benefit accruals to all participants and closed the Plan to any new participants. In addition, all participants became immediately 100% vested in their accrued benefits as of that date. In accordance with prescribed accounting standards, the Company annually reviews plan assumptions.

The Company annually reviews its pension benefit plans assumptions which include the discount rate, the expected long-term rate of return on plan assets, and the compensation increase rate. The assumed discount rate is set based on the rates of return on high quality long-term fixed income investments currently available and expected to be available during the period to maturity of the pension benefits. The assumed long-term rate of return on plan assets is generally set at the rate expected to be earned based on the long-term investment policy of the plans, the various classes of the invested funds, based on the input of the plan's investment advisors and consulting actuary, and the plan's historic rate of return. The compensation rate increase assumption is generally set at a rate consistent with current and expected long-term compensation and salary policy, including inflation. These assumptions involve uncertainties and judgment, and therefore actual performance may not be reflective of the assumptions.

Other postretirement benefit assumptions include future events affecting retirement age, mortality, dependency status, per capita claims costs by age, health care trend rates, and discount rates. Per capita claims cost by age is the current cost of providing postretirement health care benefits for one year at each age from the youngest age to the oldest age at which plan participants are expected to receive benefits under the plan. Health care trend rates involve assumptions about the annual rate(s) of change in the cost of health care benefits currently provided by the plan, due to factors other than changes in the composition of the plan population by age and dependency status. These rates implicitly consider estimates of health care inflation, changes in utilization, technological advances and changes in health status of the participants.

Share-Based Payments. Liability awards under a share-based payment arrangement have been measured based on the award's fair value at the reporting date. The Black-Scholes valuation method has been used to estimate the fair value of the options. This fair value calculation of the options include assumptions relative to the following:

- exercise price
- expected term based on contractual term and perceived future behavior relative to exercise
- current price
- expected volatility
- risk-free interest rates
- expected dividends

These assumptions are continually reviewed by the Company and adjustments may be made based upon current facts and circumstances.

Other significant accounting policies, although not involving the same level of measurement uncertainties as those discussed above, but nonetheless important to an understanding of the financial statements, are described in Note 1, Summary of Significant Accounting Policies.

Impact of Recent Business Environment

The financial markets began experiencing stress during the second half of 2007 which significantly increased during 2008 and on into 2009. The volatility and disruption in the financial markets has caused the availability and cost of credit to be materially affected. Combined with volatile oil prices, depressed home prices, increasing foreclosures, falling equity market values, declining business and consumer confidence, and higher unemployment, these factors precipitated a severe recession that continued through the first quarter 2009. The combination of economic conditions began to negatively impact our sales in 2008, particularly in the international markets, and continued to adversely impact the demand for our life products during the first quarter of 2009. As such going forward, we also may experience a higher incidence of claims, lapses or surrenders of policies.

The fixed income markets, our primary investment source, are experiencing a high level of volatility and limited market liquidity conditions. Credit downgrade events have continued and there is an increased probability of default for many fixed income instruments. These volatile market conditions have also increased the difficulty of valuing certain securities as trading is less frequent and/or market data is less observable. Certain securities that were in active markets with significant observable data became illiquid due to the current financial environment resulting in valuations that require greater estimation and judgment as well as valuation methods which are more complex. Such valuations may not ultimately be realizable in a market transaction and may change very rapidly as market conditions change and valuation assumptions need to be modified.

Credit spreads (difference between bond yields and risk-free interest rates) on fixed maturity securities remain high given the market conditions. While the increase in credit spreads generated higher yields making our products more attractive to consumers, the higher rate levels caused a reduction in the carrying value of our marked-to-market investments in 2008 negatively impacting our financial condition and reported book value per share. There are early signs that the economy and the financial markets are starting to stabilize. During the first quarter the fair value of our mark to market securities showed an increase from their year-end values.

Our operating strategy is to maintain capital levels substantially above regulatory and rating agency requirements. While not significant, our statutory capital levels were impacted during the first quarter as a result of rating declines on some of our holdings.

RESULTS OF OPERATIONS

The Company's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). In addition, the Company regularly evaluates operating performance using non-GAAP financial measures which exclude or segregate derivatives and realized investment gains and losses from operating revenues and earnings. Similar measures are commonly used in the insurance industry in order to assess profitability and results from ongoing operations. The Company believes that the presentation of these non-GAAP financial measures enhances the understanding of the Company's results of operations by highlighting the results from ongoing operations and the underlying profitability factors of the Company's business. The Company excludes or segregates derivatives and realized investment gains and losses because such items are often the result of events which may or may not be at the Company's discretion and the fluctuating effects of these items could distort trends in the underlying profitability of the Company's business. Therefore, in the following sections discussing consolidated operations and segment operations, appropriate reconciliations have been included to report information management considers useful in enhancing an understanding of the Company's operations to reportable GAAP balances reflected in the consolidated financial statements.

Consolidated Operations

Revenues. The following details Company revenues.

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Traditional life and annuity premiums	$ 4,131	3,894
Universal life and annuity contract revenues	38,571	32,218
Net investment income (excluding derivatives)	83,576	83,987
Other income	3,594	3,139
Operating revenues	129,872	123,238
Derivative loss	(12,970)	(24,557)
Realized gains (losses) on investments	(5,345)	(44)
Total revenues	$ 111,557	98,637

Traditional life and annuity premiums - Traditional life and annuity premiums increased 6% in the first three months of 2009 compared to the same period in 2008. Traditional life insurance premiums for products such as whole life and term life are recognized as revenues over the premium-paying period. These are products that supplement the Company’s main core offering of universal life products, particularly equity-indexed universal life products.

Universal life and annuity contract revenues - Revenues for universal life and annuity contracts increased 19.7% for the three months in 2009 compared to 2008 and consist of policy charges for the cost of insurance, administration charges, and surrender charges assessed against policyholder account balances. Revenues in the form of cost of insurance charges were $21.3 million in the first quarter of 2009 compared to $20.0 million for the quarter ended March 31, 2008, reflecting the growing block of life insurance in force. Surrender charges assessed against policyholder account balances upon withdrawal increased to $13.6 million in the first quarter of 2009 versus $9.0 million in 2008 indicative of a higher incidence of policy withdrawals and terminations.

Net investment income - A detail of net investment income is provided below.

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Gross investment income:		
Debt securities	$ 79,727	78,693
Mortgage loans	1,859	1,959
Policy loans	1,476	1,520
Short-term investments	1,081	1,163
Other invested assets	414	1,308
Total investment income	84,557	84,643
Investment expenses	981	656
Net investment income (excluding derivatives)	83,576	83,987
Derivative loss	(12,970)	(24,557)
Net investment income	$ 70,606	59,430

Income from other invested assets for the three months ended March 31, 2008 includes a settlement payment of $0.9 million from a previously impaired and sold security. Derivative income and losses are recorded as a component of investment income but may fluctuate substantially from period to period based on the performance of the underlying indices. See the discussion that follows this section relating to index options and derivatives.

To ensure the Company will be able to pay future commitments to policyholders and provide a financial return, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed maturity debt securities. The income from these investments is closely monitored by the Company due to its significant impact on the business. In the quarter ended March 31, 2009, the Company's insurance operations purchased $191 million of debt securities with a weighted average yield to maturity of 6.34% and average Standard and Poor's credit quality rating of "A".

Net investment income performance is summarized as follows:

	Three Months Ended March 31, 2009	2008
	(In thousands)	
Excluding derivatives:		
Net investment income	$ 83,576	83,987
Average invested assets, at amortized cost	$ 5,820,019	5,820,135
Annual yield on average invested assets	5.74%	5.77%
Including derivatives:		
Net investment income	$ 70,606	59,430
Average invested assets, at amortized cost	$ 5,863,471	5,886,236
Annual yield on average invested assets	4.82%	4.04%

The lower yield on average invested assets in 2009 compared to 2008 is due to the additional income recognized from the other invested assets in 2008. Although long-term interest rate levels were lower in the first quarter of 2009 compared to the first quarter of 2008, the increase in corporate spreads over treasury rates substantially offset the lower interest rate level such that long-term investment yields remained largely the same. Net investment income performance is analyzed excluding the derivative income which is a common practice in the insurance industry in order to assess underlying profitability and results from ongoing operations.

Other income - Other income primarily pertains to the Company's operations involving a nursing home in Reno, Nevada. Revenues associated with this operation were $3.4 million and $3.1 million for the three months ended March 31, 2009 and 2008, respectively.

Derivative income (loss) - Index options are derivative financial instruments used to hedge the equity return component of the Company's fixed-indexed products. Index options are intended to act as hedges to match closely the returns on the product's underlying reference index and the rise or decline in the index causes option values to likewise increase or decline. Any income or loss from the sale or expiration of the options, as well as period-to-period changes in fair values, are reflected as a component of net investment income. However, increases or decreases in income from these options are substantially offset by corresponding increases or decreases in amounts credited to fixed-indexed annuity and life policyholders.

Derivative components included in net investment income and the corresponding contract interest amounts are detailed below for each date presented.

	Three Months Ended March 31, 2009	2008
	(In thousands)	
Derivatives:		
Unrealized loss	$ (1,365)	(20,480)
Realized loss	(11,605)	(4,077)
Total loss included in net investment income	$ (12,970)	(24,557)
Total contract interest	$ 35,265	26,617

Benefits and Expenses. The following details benefits and expenses.

	Three Months Ended March 31, 2009	2008
	(In thousands)	
Life and other policy benefits	$ 13,028	10,455
Amortization of deferred acquisition costs	27,948	26,249
Universal life and annuity contract interest	35,266	26,617
Other operating expenses	12,713	13,430
Totals	$ 88,955	76,751

Life and other policy benefits - Death claim benefits increased to $9.9 million during the first quarter of 2009 from $8.0 million for the quarter ended March 31, 2008. During the quarter the Company reviewed and updated its IBNR claims reserving assumptions. The updated estimates resulted in a one-time reduction in the IBNR claims reserve. While death claim amounts are subject to variation from period to period, the Company's mortality experience has generally been consistent with or better than its product pricing assumptions.

Amortization of deferred acquisition costs - Life insurance companies are required to defer certain expenses associated with acquiring new business. The majority of these acquisition expenses consist of commissions paid to agents, underwriting costs, and certain marketing expenses and sales inducements. The Company defers sales inducements in the form of first year interest bonuses on annuity and universal life products that are directly related to the production of new business. These charges are deferred and amortized using the same methodology and assumptions used to amortize other capitalized acquisition costs and the amortization is included in contract interest. Recognition of these deferred policy acquisition costs in the financial statements occurs over future periods in relation to the emergence of profits priced into the products sold. This emergence of profits is based upon assumptions regarding premium payment patterns, mortality, persistency, investment performance, and expense patterns. Companies are required to review these assumptions periodically to ascertain whether actual experience has deviated significantly from that assumed. If it is determined that a significant deviation has occurred, the emergence of profits pattern is to be "unlocked" and reset based upon the actual experience. While the Company is required to evaluate its emergence of profits continually, management believes that the current amortization patterns of deferred policy acquisition costs are reflective of actual experience.

Amortization of deferred policy acquisition costs increased by $1.7 million in the first quarter of 2009 compared to 2008. The increase in amortization reflects the current quarter activity related to partial surrender rates, surrender rates, mortality rates, portfolio yield rates and crediting rates on the deferred annuities and universal life products.

Universal life and annuity contract interest - The Company closely monitors its credited interest rates on interest sensitive policies, taking into consideration such factors as profitability goals, policyholder benefits, product marketability, and economic market conditions. As long term interest rates change, the Company's credited interest rates are often adjusted accordingly, taking into consideration the factors as described above. The difference between yields earned over policy credited rates is often referred to as the "interest spread".

The Company's approximated average credited rates are as follows:

	March 31, 2009	2008	March 31, 2009	2008
	(Excluding derivative products)		(Including derivative products)	
Annuity	1.77%	2.79%	2.51%	1.84%
Interest sensitive life	2.20%	3.41%	3.06%	2.71%

Contract interest also includes the performance of the equity-indexed component of the Company's derivative products as noted which resulted in losses of $13.0 million and $24.6 million in the first three months of 2009 and 2008, respectively. As previously noted, the market performance of these equity-index features is largely included in contract interest expense while also impacting the Company's investment income given the hedge nature of the options purchased for these products.

Other operating expenses - Other operating expenses consist of general administrative expenses, licenses and fees, and commissions not subject to deferral. Like revenues from other income, nursing home operation expenses are included in other operating expenses and were $3.3 million and $2.8 million for the first quarter of 2009 and 2008, respectively. Other operating expenses include compensation costs under SFAS 123(R) for the Company's stock option plan pertaining to the current charge related to outstanding vested and unvested options. Compensation costs recorded in the first quarter of 2009 and 2008 were $(2.2) million and ($0.1) million, respectively.

Federal Income Taxes. Federal income taxes on earnings from continuing operations reflect effective tax rates of 33.5% and 34.0% for the first quarter of 2009 and 2008, respectively. Actual rates are lower than the expected Federal rate of 35%, primarily due to tax-exempt investment income related to municipal securities and dividends-received deductions on income from stocks.

Segment Operations

Summary of Segment Earnings

A summary of segment earnings (losses) for the quarters ended March 31, 2009 and 2008 is provided below. The segment earnings exclude realized gains and losses on investments, net of taxes.

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
Segment earnings (losses):					
March 31, 2009	$ 2,300	1,476	13,700	1,026	18,502
March 31, 2008	$ (23)	3,872	9,809	817	14,475

Domestic Life Insurance Operations

A comparative analysis of results of operations for the Company's domestic life insurance segment is detailed below.

	Three Months Ended March 31, 2009	2008
	(In thousands)	
Premiums and other revenue:		
Premiums and contract revenues	$ 9,539	6,619
Net investment income	5,098	5,161
Other income	14	6
Total premiums and other revenue	14,651	11,786
Benefits and expenses:		
Life and other policy benefits	3,821	4,205
Amortization of deferred policy acquisition costs	2,355	2,287
Universal life insurance contract interest	2,272	2,355
Other operating expenses	2,730	2,974
Total benefits and expenses	11,178	11,821
Segment earnings (losses) before Federal income taxes	3,473	(35)
Federal income taxes (benefit)	1,173	(12)
Segment earnings (losses)	$ 2,300	(23)

Revenues from domestic life insurance operations include life insurance premiums on traditional type products and revenues from universal life insurance. Revenues from traditional products are simply premiums collected, while revenues from universal life insurance consist of policy charges for the cost of insurance, policy administration fees, and surrender charges assessed during the period. A comparative detail of premiums and contract revenues is provided below.

	Three Months Ended March 31, 2009	2008
	(In thousands)	
Universal life insurance revenues	$ 8,695	6,045
Traditional life insurance premiums	2,172	1,622
Reinsurance premiums	(1,328)	(1,048)
Totals	$ 9,539	6,619

The Company's efforts over the past several years have been to attract new independent agents and to promote life products to improve domestic life sales. Consequently, the increased sales levels of the past several years have translated to the increase in insurance revenues.

Along with the increased revenues, earnings for the domestic life insurance segment improved due to more favorable mortality experience in the first quarter of 2009 compared to the first quarter of 2008. This favorable experience caused benefits and expenses to decrease by $0.6 million.

Premiums collected on universal life products are not reflected as revenues in the Company's statements of earnings in accordance with GAAP. Actual universal life premiums collected, which were impacted by the Company's actions to discourage new larger face amount policies as discussed above, are detailed below.

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Universal life insurance:		
First year and single premiums	$ 2,182	4,330
Renewal premiums	5,568	4,728
Totals	$ 7,750	9,058

International Life Insurance Operations

A comparative analysis of results of operations for the Company's international life insurance segment is detailed below.

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Premiums and other revenue:		
Premiums and contract revenues	$ 26,249	23,485
Net investment income	4,058	3,039
Other income	27	12
Total premiums and other revenue	30,334	26,536
Benefits and expenses:		
Life and other policy benefits	7,724	5,313
Amortization of deferred policy acquisition costs	13,162	8,791
Universal life insurance contract interest	3,720	2,694
Other operating expenses	3,506	3,872
Total benefits and expenses	28,112	20,670
Segment earnings before Federal income taxes	2,222	5,866
Provision for Federal income taxes	746	1,994
Segment earnings	$ 1,476	3,872

As with domestic operations, revenues from the international life insurance segment include both premiums on traditional type products and revenues from universal life insurance. A comparative detail of premiums and contract revenues is provided below.

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Universal life insurance revenues	$ 27,725	23,952
Traditional life insurance premiums	2,729	3,041
Reinsurance premiums	(4,205)	(3,508)
Totals	$ 26,249	23,485

Premiums collected on universal life products are not reflected as revenues in the Company's statements of earnings in accordance with GAAP. Actual universal life premiums collected are detailed below.

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Universal life insurance:		
First year and single premiums	$ 7,601	9,386
Renewal premiums	22,346	22,556
Totals	$ 29,947	31,942

The Company reported decreased premiums for fixed-indexed universal life products with approximately $15.2 million and $18.3 million for the first quarter of 2009 and 2008, respectively. Contract revenues increased as the amount of international life insurance in force grew from $15.0 billion as of March 31, 2008, to $15.8 billion as of March 31, 2009.

As previously noted, net investment income and contract interest include period-to-period changes in fair values pertaining to options purchased that are tied to the performance of the underlying indexes. The largest selling product in the international life insurance segment for the past five years has been an equity-indexed universal life policy with the equity component linked in part to the underlying indices. With the growth in this block of business, the period-to-period changes in fair values of the underlying options can have a significant impact on net investment and contract interest. A detail of net investment income for international life insurance operations is provided below.

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Net investment income (excluding derivatives)	$ 7,197	7,067
Derivative loss	(3,139)	(4,028)
Net investment income	$ 4,058	3,039

Amortization of deferred policy acquisition costs increased approximately 49.7% comparing the first three months of 2009 to the same period in 2008, reflecting higher lapse activity due to current economic conditions.

Annuity Operations

The Company's annuity operations are almost exclusively in the United States. Although some of the Company's investment contracts are available to international residents, current sales are small relative to total annuity sales. A comparative analysis of results of operations for the Company's annuity segment is detailed below.

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Premiums and other revenue:		
Premiums and contract revenues	$ 6,914	6,008
Net investment income	60,021	50,297
Other income	135	38
Total premiums and other revenue	67,070	56,343
Benefits and expenses:		
Life and other policy benefits	1,483	937
Amortization of deferred policy acquisition costs	12,431	15,171
Annuity contract interest	29,274	21,568
Other operating expenses	3,194	3,806
Total benefits and expenses	46,382	41,482
Segment earnings before Federal income taxes	20,688	14,861
Provision for Federal income taxes	6,988	5,052
Segment earnings	$ 13,700	9,809

Revenues from annuity operations primarily include surrender charges and recognition of deferred revenues relating to immediate or payout annuities. A comparative detail of the components of premiums and annuity contract revenues is provided below.

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Surrender charges	$ 5,353	4,795
Payout annuity and other revenues	1,557	1,207
Traditional annuity premiums	4	6
Totals	$ 6,914	6,008

The Company's earnings are dependent upon annuity contracts persisting or remaining in force. While premium and contract revenues increase with an increase in surrender charges, the Company's investment earnings benefit as more policies remain in force.

Deposits collected on annuity contracts are not reflected as revenues in the Company's statements of earnings in accordance with GAAP. Actual annuity deposits collected for the three months ended March 31, 2009 and 2008 are detailed below.

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Fixed-indexed annuities	$ 103,766	69,024
Other deferred annuities	47,549	29,728
Immediate annuities	5,238	1,649
Totals	$ 156,553	100,401

Fixed-indexed product sales typically follow the stock market in that sales are higher when confidence is high in the stock market and low if the stock market is showing poor performance. However, in a low interest environment the Company’s experience has shown a higher proportion of fixed-indexed annuity sales relative to other deferred annuity products which have a fixed interest rate of interest credited to the policy.

Other deferred annuity product sales have been trending lower over the past few years due to low interest rates and investor preferences. As a selling inducement, many of the deferred products, as well as the fixed-indexed annuity products, include a first year interest bonus in addition to a base interest rate. These bonus rates are deferred in conjunction with other capitalized policy acquisition costs. The amount deferred and amortized over future periods amounted to approximately $8.5 million and $4.5 million during the first quarter of 2009 and 2008, respectively.

A detail of net investment income for annuity operations is provided below.

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Net investment income (excluding derivatives)	$ 69,395	70,826
Derivative loss	(9,374)	(20,529)
Net investment income	$ 60,021	50,297

As noted previously, derivative income and loss fluctuate from period to period based on the performance of the underlying indices.

Annuity contract interest includes the equity component return associated with the Company's fixed-indexed annuities. The detail of fixed-indexed annuity contract interest compared to contract interest for all other annuities is as follows:

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Fixed-indexed annuities	$ 24,070	4,917
All other annuities	10,192	18,350
Gross contract interest	34,262	23,267
Bonus interest deferred and capitalized	(8,479)	(4,484)
Bonus interest amortization	3,491	2,785
Total contract interest	$ 29,274	21,568

Contract interest includes the portion of its return on fixed interest products associated with the performance of the underlying indices.

Amortization of deferred policy acquisition costs decreased approximately 18.1% comparing the first three months of 2009 to the same period in 2008. During the first three months of 2008 the Company experienced an increased conversion activity of deferred annuities, into payout annuities. This resulted in a higher amortization. Current amounts should be more reflective of ongoing activity.

Other Operations

National Western's primary business encompasses its domestic and international life insurance operations and its annuity operations. However, National Western also has small real estate, nursing home, and other investment operations through its wholly-owned subsidiaries. Nursing home operations generated $0.1 million and $0.3 million of operating earnings in the first quarters of 2009 and 2008, respectively.

INVESTMENTS

General

The Company's investment philosophy emphasizes the careful handling of policyowners' and stockholders' funds to achieve security of principal, to obtain the maximum possible yield while maintaining security of principal, and to maintain liquidity in a measure consistent with current and long-term requirements of the Company.

The Company's overall conservative investment philosophy is reflected in the allocation of its investments, which is detailed below. The Company emphasizes investment grade debt securities, with smaller holdings in mortgage loans and policy loans.

	March 31, 2009		December 31, 2008	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
Debt securities	$ 5,670,648	96.5	5,563,000	96.3
Mortgage loans	91,430	1.6	90,733	1.6
Policy loans	77,299	1.3	79,277	1.4
Derivatives	9,116	0.2	11,920	0.2
Equity securities	12,831	0.2	13,683	0.2
Real estate	10,763	0.2	10,828	0.2
Other	2,885	0.0	3,340	0.1
Totals	$ 5,874,972	100.0	5,772,781	100.0

Debt and Equity Securities

The Company maintains a diversified portfolio which consists primarily of corporate, mortgage-backed, and public utility fixed income securities. Investments in mortgage-backed securities primarily include U.S. government agency pass-through securities and collateralized mortgage obligations ("CMO"). As of March 31, 2009 and December 31, 2008, the Company's debt securities portfolio consisted of the following:

	March 31, 2009		December 31, 2008	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
Corporate	$ 2,533,998	44.8	2,453,404	44.0
Mortgage-backed securities	1,990,192	35.1	2,001,060	36.0
Public utilities	895,504	15.8	790,419	14.2
U.S. Agencies	48,190	0.8	119,674	2.2
U.S. Treasury	1,922	-	1,923	-
Asset-backed securities	82,113	1.4	88,278	1.6
States & political subdivisions	97,679	1.7	86,962	1.6
Foreign governments	21,050	0.4	21,280	0.4
Totals	$ 5,670,648	100.0	5,563,000	100.0

Because the Company's holdings of mortgage-backed securities are subject to prepayment and extension risk, the Company has substantially reduced these risks by investing in collateralized mortgage obligations, which have more predictable cash flow patterns than pass-through securities. These securities, known as planned amortization class I ("PAC I"), very accurately defined maturity ("VADM") and sequential tranches are designed to amortize in a more predictable manner than other CMO classes or pass-throughs. The Company does not purchase tranches, such as PAC II and support tranches, that subject the portfolio to greater than average prepayment risk. Using this strategy, the Company can more effectively manage and reduce prepayment and extension risks, thereby helping to maintain the appropriate matching of the Company's assets and liabilities.

Due to recent negative news relative to the mortgage industry and in particular subprime mortgages the Company has included detailed information below related to the exposure at March 31, 2009 in the debt securities portfolio. The Company holds approximately $82.1 million in asset-backed securities at March 31, 2009. This portfolio includes $39.7 million of manufactured housing bonds and $42.4 million of home equity loans (also referred to as subprime securities). The Company does not have any holdings in collaterized bond obligations (CBOs), collateralized debt obligations (CDOs), or collateralized loan obligations (CLOs). Principal risks in holding asset-backed securities are structural, credit, and capital market risks. Structural risks include the securities' priority in the issuer's capital structure, the adequacy of and ability to realize proceeds from collateral and the potential for prepayments. Credit risks include corporate credit risks or consumer credit risks for financing such as subprime mortgages. Capital market risks include the general level of interest rates and the liquidity for these securities in the marketplace.

The mortgage-backed portfolio includes one Alt-A security with a carrying value of $3.5 million. The Alt-A sector is a sub-sector of the jumbo prime MBS sector. The average FICO for an Alt-A borrower is approximately 715 compared to a score of 730 for a jumbo prime borrower. The Company's exposure to the Alt-A and subprime sectors is limited to investments in the senior tranches of structured securities collateralized by Alt-A or subprime residential mortgage loans. The asset-backed portfolio includes thirteen subprime securities, totaling $42.4 million. The subprime sector is generally categorized under the asset-backed sector. This sector lends to borrowers who do not qualify for prime interest rates due to poor or insufficient credit history. Subprime borrowers generally have FICO scores of 660 or below. The slowing housing market, rising interest rates, and relaxed underwriting standards for loans originated after 2005 resulted in higher delinquency rates and losses beginning in 2007. These events caused illiquidity in the market and volatility in the market prices of subprime securities. All of the loans classified as Alt-A or subprime in the Company's portfolio as of March 31, 2009 were underwritten prior to 2005 as noted in the table below.

Investment Origination Year	March 31, 2009 Carrying Value	March 31, 2009 Fair Value	December 31, 2008 Carrying Value	December 31, 2008 Fair Value
	(In thousands)			
Subprime:				
1998	$ 10,987	10,395	12,125	11,157
2002	1,110	534	1,123	556
2003	6,743	2,949	6,894	3,779
2004	23,556	14,585	26,817	21,970
Subtotal subprime	$ 42,396	28,463	46,959	37,462
Alt A:				
2004	$ 3,521	3,521	3,821	3,821

As of March 31, 2009, nine of the subprime securities were rated AAA, two were rated AA, one was rated A, and one was rated BBB.

In addition to diversification, an important aspect of the Company's investment approach is managing the credit quality of its investments in debt securities. Thorough credit analysis is performed on potential corporate investments including examination of a company's credit and industry outlook, financial ratios and trends, and event risks. This emphasis is reflected in the high average credit rating of the Company's portfolio with 98.1% held in investment grade securities. In the table below, investments in debt securities are classified according to credit ratings by Standard and Poor's ("S&P®"), or other nationally recognized statistical rating organizations if securities were not rated by S&P®.

	March 31, 2009 Carrying Value (In thousands)	March 31, 2009 %	December 31, 2008 Carrying Value (In thousands)	December 31, 2008 %
AAA and U.S. government	$ 2,156,753	38.2	2,306,694	41.5
AA	291,234	5.1	205,729	3.7
A	1,454,268	25.6	1,431,703	25.7
BBB	1,657,859	29.2	1,546,720	27.8
BB and other below investment grade	110,534	1.9	72,154	1.3
Totals	$ 5,670,648	100.0	5,563,000	100.0

The Company does not purchase below investment grade securities. Investments held in debt securities below investment grade are the result of subsequent downgrades of the securities. These holdings are summarized below.

	Below Investment Grade Debt Securities			
	Amortized Cost	Carrying Value	Fair Value	% of Invested Assets
	(In thousands except percentages)			
March 31, 2009	$ 129,424	110,534	97,393	1.9%
December 31, 2008	$ 84,229	72,154	67,375	1.2%
December 31, 2007	$ 105,067	100,221	97,618	1.7%

As of March 31, 2009, the Company's percentage of below investment grade securities compared to total invested assets totaled 1.9%. The increase from December 31, 2008 is primarily due to seven securities being downgraded during the quarter. The Company's holdings of below investment grade securities as a percentage of total invested assets is relatively small compared to industry averages.

Holdings in below investment grade securities by category as of March 31, 2009 are summarized below, including March 31, 2009 and December 31, 2008 fair values for comparison. The Company is continually monitoring developments in these industries that may affect security valuation issues.

	Below Investment Grade Debt Securities			
Industry Category	Amortized Cost March 31, 2009	Carrying Value March 31, 2009	Fair Value March 31, 2009	Fair Value December 31, 2008
	(In thousands)			
Retail	$ 13,986	12,847	12,410	9,808
Telecommunications	6,322	4,957	4,957	3,808
Medical	13,000	12,580	11,895	11,050
Utilities/energy	12,176	11,841	11,477	11,287
Asset-backed	11,485	11,484	8,821	7,965
Mortgage-backed	4,934	2,044	2,044	3,671
Auto finance	1,503	1,275	1,275	1,173
Banking/finance	13,974	12,751	5,547	5,738
Manufacturing	37,571	30,669	28,881	28,726
Transportation	1,984	1,591	1,591	1,389
Other	12,489	8,495	8,495	8,688
Totals	$ 129,424	110,534	97,393	93,303

The Company closely monitors its below investment grade holdings by reviewing investment performance indicators, including information such as issuer operating performance, debt ratings, analyst reports and other economic factors that may affect these specific investments. While additional losses are not currently anticipated, based on the existing status and condition of these securities, continued credit deterioration of some securities or the markets in general is possible, which may result in further writedowns.

The Company is required to classify its investments in debt and equity securities into one of three categories: (a) trading securities, (b) securities available for sale, or (c) securities held to maturity. The Company purchases securities with the intent to hold to maturity and accordingly does not maintain a portfolio of trading securities. Of the remaining two categories, available for sale and held to maturity, the Company makes a determination as to which category based on various factors including the type and quality of the particular security and how it will be incorporated into the Company's overall asset/liability management strategy. As shown in the table below, at March 31, 2009, approximately 31.4% of the Company's total debt and equity securities, based on fair values, were classified as securities available for sale. These holdings provide flexibility to the Company to react to market opportunities and conditions and to practice active management within the portfolio to provide adequate liquidity to meet policyholder obligations and other cash needs.

	Fair Value	Amortized Cost	Unrealized Gains (Losses)
		(In thousands)	
Securities held to maturity:			
Debt securities	$ 3,860,173	3,920,491	(60,318)
Securities available for sale:			
Debt securities	1,750,157	1,892,817	(142,660)
Equity securities	12,831	6,777	6,054
Totals	$ 5,623,161	5,820,085	(196,924)

For the three months ended March 31, 2009, the Company recorded other-than-temporary impairment writedowns on debt securities totaling $4.9 million and equity securities totaling $0.4 million.

Market Risk

Market risk is the risk of change in market values of financial instruments due to changes in interest rates, currency exchange rates, commodity prices, or equity prices. The most significant market risk exposure for National Western is interest rate risk. The fair values of fixed income debt securities correlate to external market interest rate conditions. Because interest rates are fixed on almost all of the Company's debt securities, market values typically increase when market interest rates decline, and decrease when market interest rates rise. However, market values may fluctuate for other reasons, such as changing economic conditions or increasing event-risk concerns.

The correlation between fair values and interest rates for debt securities is reflected in the tables below.

	March 31, 2009	December 31, 2008
	(In thousands except percentages)	
Debt securities - fair value	$ 5,610,330	5,458,936
Debt securities - amortized cost	$ 5,813,308	5,728,363
Fair value as a percentage of amortized cost	96.51 %	95.30 %
Unrealized loss balance	$ (202,978)	(269,427)
Ten-year U.S. Treasury bond – increase (decrease) in yield for the quarter	0.45 %	(1.81)%

	Unrealized Loss Balance At March 31, 2009	Unrealized Loss Balance At December 31, 2008	Change in Unrealized Balance
		(In thousands)	
Debt securities held to maturity	$ (60,318)	(104,064)	43,746
Debt securities available for sale	(142,660)	(165,363)	22,703
Totals	$ (202,978)	(269,427)	66,449

Changes in interest rates typically have a sizable effect on the fair values of the Company's debt securities. Market interest rates of the ten-year U.S. Treasury bond increased approximately 45 basis points from year-end 2008 causing an unrealized gain of $66.4 million during the quarter on a portfolio of approximately $5.8 billion. The Company would expect similar results in the future from any significant upward or downward movement in market rates. However, since the majority of the Company's debt securities are classified as held to maturity, which are recorded at amortized cost, changes in fair values have relatively small effects on the Company's consolidated balance sheet.

The Company manages interest rate risk through ongoing cash flow testing required for insurance regulatory purposes. Computer models are used to perform cash flow testing under various commonly used stress test interest rate scenarios to determine if existing assets would be sufficient to meet projected liability outflows. Sensitivity analysis allows the Company to measure the potential gain or loss in fair value of its interest-sensitive instruments and to protect its economic value and achieve a predictable spread between what is earned on invested assets and what is paid on liabilities. The Company seeks to minimize the impact of interest risk through surrender charges that are imposed to discourage policy surrenders. Interest rate changes can be anticipated in the computer models and the corresponding risk addressed by management actions affecting asset and liability instruments. However, potential changes in the values of financial instruments indicated by hypothetical interest rate changes will likely be different from actual changes experienced, and the differences could be significant.

The Company performed detailed sensitivity analysis as of December 31, 2008, for its interest rate-sensitive assets and liabilities. The changes in market values of the Company's debt securities in the first quarter of 2009 were reasonable given the expected range of results of this analysis.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Liquidity requirements are met primarily by funds provided from operations. Premium deposits and annuity considerations, investment income, and investment maturities and prepayments are the primary sources of funds while investment purchases, policy benefits in the form of claims, and payments to policyholders and contract holders in connection with surrenders and withdrawals as well as operating expenses are the primary uses of funds. To ensure the Company will be able to pay future commitments, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed income securities. Funds are invested with the intent that the income from investments, plus proceeds from maturities, will meet the ongoing cash flow needs of the Company. The approach of matching asset and liability durations and yields requires an appropriate mix of investments. Although the Company historically has not been put in the position of liquidating invested assets to provide cash flow, its investments consist primarily of marketable debt securities that could be readily converted to cash for liquidity needs. The Company may also borrow up to $40 million on its bank line of credit for short-term cash needs.

A primary liquidity concern is the risk of an extraordinary level of early policyholder withdrawals. The Company includes provisions within its annuity and universal life insurance policies, such as surrender and market value adjustment charges, that help limit and discourage early withdrawals. The following table sets forth withdrawal characteristics of the Company's annuity reserves and deposit liabilities (based on statutory liability values) as of the dates indicated.

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Product Line:		
Traditional Life	$ 1,279	1,072
Universal Life	15,865	9,450
Annuities	97,153	99,847
Total	$ 114,297	110,369

The above contractual withdrawals, as well as the level of surrenders experienced, were generally consistent with the Company's assumptions in asset/liability management, and the associated cash outflows did not have an adverse impact on overall liquidity. Individual life insurance policies are less susceptible to withdrawal than annuity reserves and deposit liabilities because policyholders may incur surrender charges and undergo a new underwriting process in order to obtain a new insurance policy. Cash flow projections and tests under various market interest rate scenarios are also performed to assist in evaluating liquidity needs and adequacy. The Company currently expects available liquidity sources and future cash flows to be more than adequate to meet the demand for funds.

In the past, cash flows from the Company's insurance operations have been sufficient to meet current needs. Cash flows from operating activities were $40.1 million and $66.9 million for the three months ended March 31, 2009 and 2008, respectively. The Company also has significant cash flows from both scheduled and unscheduled investment security maturities, redemptions, and prepayments. These cash flows totaled $(100.6) million and $18.8 million for the three months ended March 31, 2009 and 2008, respectively. These cash flow items could be reduced if interest rates rise. Net cash flows from the Company's universal life and investment annuity deposit product operations totaled $20.8 million and $(37.1) million during the three months ended March 31, 2009 and 2008, respectively.

Capital Resources

The Company relies on stockholders' equity for its capital resources as there is no long-term debt outstanding and the Company does not anticipate the need for any long-term debt in the near future. As of March 31, 2009, the Company had commitments of approximately $2.1 million which were approved by the Company's Board of Directors for the construction of a nursing home facility in Central Texas. The construction of the new facility began in 2007 and is expected to be completed in the second quarter of 2009.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

It is not Company practice to enter into off-balance sheet arrangements or to issue guarantees to third parties, other than in the normal course of issuing insurance contracts. Commitments related to insurance products sold are reflected as liabilities for future policy benefits. Insurance contracts guarantee certain performances by the Company.

Insurance reserves are the means by which life insurance companies determine the liabilities that must be established to assure that future policy benefits are provided for and can be paid. These reserves are required by law and based upon standard actuarial methodologies to ensure fulfillment of commitments guaranteed to policyholders and their beneficiaries, even though the obligations may not be due for many years. Refer to Note (1) in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 for a discussion of reserving methods.

The table below summarizes future estimated cash payments under existing contractual obligations.

	Payment Due by Period				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
			(In thousands)		
Operating lease obligations (1)	$ 261	196	65	-	-
Construction commitments	2,059	2,059	-	-	-
Life claims payable (2)	50,678	50,678	-	-	-
Other long-term reserve liabilities reflected on the balance sheet under GAAP (3)	7,875,120	799,683	1,455,634	1,788,254	3,831,549
Total	$ 7,928,118	852,616	1,455,699	1,788,254	3,831,549

(1) Refer to Note 9 in the Notes to Consolidated Financial Statements relating to leases in the Company’s Annual Report on Form 10-K for the year ended December 31, 2008.
(2) Life claims payable include benefit and claim liabilities for which the Company believes the amount and timing of the payment is essentially fixed and determinable. Such amounts generally relate to incurred and reported death and critical illness claims including an estimate of claims incurred but not reported.
(3) Other long-term liabilities include estimated life and annuity obligations related to death claims, policy surrenders, policy withdrawals, maturities and annuity payments based on mortality, lapse, annuitization, and withdrawal assumptions consistent with the Company’s historical experience. These estimated life and annuity obligations are undiscounted projected cash outflows that assume interest crediting and market growth consistent with assumptions used in amortizing deferred acquisition costs. They do not include any offsets for future premiums or deposits. Other long-term liabilities also include determinable payout patterns related to immediate annuities. In contrast to this table, the majority of the Company’s liabilities for future obligations recorded on the consolidated balance sheet do not incorporate future credited interest and market growth. Therefore, the estimated life and annuity obligations presented in this table significantly exceed the life and annuity liabilities recorded in the reserves for future life and annuity obligations. Due to the significance of the assumptions used, the actual cash outflows will differ both in amount and timing, possibly materially, from these estimates.

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CHANGES IN ACCOUNTING PRINCIPLES AND CRITICAL ACCOUNTING POLICIES

Changes in Accounting Principles

Refer to Note 1 of the Notes to Condensed Consolidated Financial Statements.

REGULATORY AND OTHER ISSUES

Statutory Accounting Practices

Regulations that affect the Company and the insurance industry are often the result of efforts by the National Association of Insurance Commissioners ("NAIC"). The NAIC routinely publishes new regulations as model acts or laws which states subsequently adopt as part of their insurance regulations. Currently, the Company is not aware of any NAIC regulatory matter material to its operations or reporting of financial results.

Risk-Based Capital Requirements

The NAIC established risk-based capital ("RBC") requirements to help state regulators monitor the financial strength and stability of life insurers by identifying those companies that may be inadequately capitalized. Under the NAIC's requirements, each insurer must maintain its total capital above a calculated threshold or take corrective measures to achieve the threshold. The threshold of adequate capital is based on a formula that takes into account the amount of risk each company faces on its products and investments. The RBC formula takes into consideration four major areas of risk which are: (i) asset risk which primarily focuses on the quality of investments; (ii) insurance risk which encompasses mortality and morbidity risk; (iii) interest rate risk which involves asset/liability matching issues; and (iv) other business risks. Statutory laws prohibit public dissemination of certain RBC information. However, the Company's current statutory capital and surplus is significantly in excess of the threshold RBC requirements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This information is included in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, in the Investments in Debt and Equity Securities section.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Finanical Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing, and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

There have been no changes in the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Refer to Note 8 "Legal Proceedings" of the accompanying financial statements included in this Form 10-Q.

ITEM 1A. RISK FACTORS

There have been no changes relative to the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Effective August 22, 2008, the Company adopted and implemented a limited stock buy-back program associated with the Company's 2008 Incentive Plan which provides Option Holders the additional alternative of selling shares acquired through the exercise of options directly back to the Company. This program succeeded a similar buy-back program implemented March 10, 2006 associated with the Company’s 1995 Stock Option and Incentive Plan. Option Holders may elect to sell such acquired shares back to the Company at any time within ninety (90) days after the exercise of options at the prevailing market price as of the date of notice of election.

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit 10(ch)	- Amended National Western Life Insurance Company Excess Benefit Plan , effective May 1, 2009.
Exhibit 31(a)	- Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31(b)	- Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32(a)	- Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATIONAL WESTERN LIFE INSURANCE COMPANY
(Registrant)

Date: May 11, 2009	/S/ Ross R. Moody
	Ross R. Moody
	President, Chief Operating Officer,
	and Director
	(Authorized Officer)
Date: May 11, 2009	/S/ Brian M. Pribyl
	Brian M. Pribyl
	Senior Vice President,
	Chief Financial & Administrative
	Officer and Treasurer
	(Principal Financial Officer)
Date: May 11, 2009	/S/ Michael G. Kean
	Michael G. Kean
	Vice President,
	Controller and Assistant Treasurer
	(Principal Accounting Officer)